



COMMISSION ON INSURANCE

COUNTY OF LOS ANGELES

Scott J. Svonkin
Chairperson

Daniel Falcon
Vice-Chairperson

Barry R. Binder
Michael G. Cheung
Rickey Ivie
Don Lee
Curren D. Price, Jr.
Rose Reets
Patricia Torres

MINUTES

Meeting of June 27, 2002
383 Kenneth Hahn Hall of Administration
Executive Conference Room

Commissioners Present: Michael Cheung, Rose Reets, Don Lee, Daniel Falcon, Curren D. Price, and Scott Svonkin

Commissioners Absent: Barry Binder, Rickey Ivie, and Patricia Torres

Chairperson Svonkin noted the presence of a quorum and called the meeting to order at 11:18 a.m.

APPROVAL OF MINUTES OF APRIL 29, 2002

On motion of Rose Reets, seconded by Curren Price, the minutes of April 29, 2002 were unanimously approved.

PRESENTATION REGARDING AUTOMOBILE FRAUD INVESTIGATION

Chairperson Svonkin introduced James B. Smith, Supervising Investigator, Los Angeles County District Attorney's Automobile Insurance Task Force and Marty Gonzalez, Supervising Investigator, California Department of Insurance who discussed the new task force that had been comprised to combat vehicle insurance fraud within Los Angeles County.

Under California Insurance Code §1874.8, the insurance industry provides funding for the task force by paying \$.50 for every assigned policy to a state fund used to implement this program.

The task force was formed in April 2002 and consists of investigators from the District Attorney's Office (DA), California Department of Insurance (CDI), and the California Highway Patrol (CHP).

An estimated forty-nine percent of all automobile fraud within the State occurs in Los Angeles County. The Department of Motor Vehicles (DMV) and the DA receive seven to ten thousand suspected fraud referrals in Los Angeles County annually. The CHP, the CDI, and the DA have broken up several well-organized rings of four to fifteen individuals that have caused over \$100 million in losses. Organized crime groups have become active in this area using insurance fraud as a way to fund narcotics trafficking. One common fraud method is purchasing medical groups and law firms to front the fraud schemes. The ring will pay an attorney or doctor to establish an office for a fee and the ring will use the doctor's/attorney's name and professional title to process claims. The professional will come into the office at least once a week to review the daily operations and collect his/her fee.

Seventy-five percent of automobile injury medical claims in the State are exaggerated or fraudulent, resulting in \$3.5 billion a year in additional premiums. There are an estimated one hundred automobile rings with various levels of sophistication within Los Angeles County. The

San Gabriel Valley has experienced an increase in automobile fraud rings in recent years.

The task force found that these automobile rings or "Mills" (rings) are usually comprised of several "Cappers". These individuals, for a fee, will refer someone who is involved in an accident or one that has staged an accident to a medical office, law office or automobile body shop who will purposely inflate the cost of physical and property damage billed to the insurance company. Cappers receive a finder's fee from the auto ring ranging between \$1200 and \$1500 per successful referral. Cappers may work for more than one automobile ring.

Other types of fraud include the staging of small collisions (paper accidents), "sudden stop", "drive down accidents" and the "swoop and squat".

The task force plans to prosecute fifteen to forty new cases each year. Methods of detection include but are not limited to surveillance, undercover operations, search warrants, informants, and automated information systems. Mr. Smith stated that the task force plans to permanently close and prosecute two major rings in the next few months.

Chairperson Scott Svonkin thanked Mr. Smith and Mr. Gonzalez for their informative presentation of this serious situation within the County and extended an invitation to provide an update on the task force's efforts at a later date.

Chairperson Svonkin made a recommendation that the Commission submit a letter of support to District Attorney Steve Cooley for the Automobile Insurance Task Force. On motion of Curren Price, seconded by Don Lee, the Commission unanimously approved the recommendation.

COMMITTEE AND TASK FORCE UPDATES AND PLANNING

Dan Falcon provided a brief report on his subcommittee's review of SB1427 (Escutia) regarding low cost automobile insurance. The bill has passed the State Senate and is in the Assembly for a final vote. It was the opinion of the subcommittee that this is not a sound bill because the people for which it was intended will not purchase it regardless the cost, and others may attempt to purchase it because of its lower cost. This will result in increases in premiums to cover insurance losses.

Chairperson Svonkin advised this could not be voted on due to the Brown Act, as it was not placed on the agenda. Staff will forward a copy of the minutes to the County's Chief Administrative Office for review and comments on the issue to the State Assembly.

MATTERS NOT ON POSTED AGENDA (To be placed on the agenda for discussion at a future meeting)

Chairperson requested that the Natural Disaster subcommittee schedule a meeting prior to the next scheduled Commission meeting of August 8, 2002.

PUBLIC COMMENTS

There were none.

ADJOURNMENT

There being no further business the meeting was adjourned at 12:26 p.m.

ATTENDANCE

James B. Smith, Supervising Investigator, Los Angeles County District Attorney's Office,
Automobile Insurance Task Force

Marty Gonzalez, Supervising Investigator, California Department of Insurance

Ken Wales, Executive Office, Board of Supervisors