

## **BUSINESS OWNERS / DISASTER FRAUD**

### **Business Owners Should Be Wary of Disaster Fraud**

With the devastating affects of the record-breaking 2004 hurricane season still in evidence around Florida, and the 2005 season firmly upon us, we are reminded of how important it is for consumers and business owners to be extra careful when dealing with repairs after a catastrophic event.

Small business owners sink just about everything they have into their businesses. And when their operation is dealt a severe blow from a natural disaster, it's expected that anxious entrepreneurs will try to get their enterprises up and running with a minimum of down time. After all, if they can't open their doors, they won't be generating any revenue.

Owners' intent on rebuilding their shops and offices are cautioned to be wary of scams perpetrated by so-called building repair contractors. While most contractors are reputable, there are others who take advantage of those needing repairs by using inferior materials, performing shoddy work not up to code or attempting to manipulate disaster victims into making claims for losses that did not occur, which is insurance fraud.

Case in point is the situation in Florida, where one in every five structures was damaged after Florida became the first state to withstand a four-hurricane pounding in one season since Texas in 1886. Experts caution small business owners to follow some basic rules when proceeding with repair plans.

**Check those IDs at the door**

Fiducial's Jim Rizzolo has his franchise office in Port St. Lucie, Fla., one of the areas hardest hit by Hurricane Jeanne last weekend with winds in excess of 120 miles per hour. In the storm's aftermath, he urged owners to take a close look at those representing themselves as legitimate contractors to make them prove their case.

"Make sure the person is licensed and insured," said Rizzolo who is currently dealing with a damaged roof courtesy of Hurricane Frances. "You can check their contractor's license number on the Internet as well as their certificate of insurance. I'm here with a contractor right now because I have to have a new roof."

Business owners now have to play the waiting game -- waiting for an insurance adjustor to appraise the damage and then waiting for the work to be performed. Taking precautions for an oncoming storm always needs to be done but there are limitations.

"There's only so much you can do with your building," he said. "Many structures have storm protection. Plywood helps so there are not a lot of windows that get blown out. But roofs do come off and water comes in that soaks into your sheetrock, your furniture, your interior walls and flooring."

The agency charged with investigating insurance fraud says there hasn't yet been a flood of these types of fraud cases since entrepreneurs usually want to get repairs made as soon as possible to reopen their businesses.

"People are more interested in getting their property fixed," said Nina Banister, press secretary for the Florida Department of Financial Services in Tallahassee. "That's all they care about right now."

She advises residents with damaged homes and businesses to be patient and remember there are protections in place to help them. This includes a 10% cap on fees that public adjustors can charge.

"You have 14 days to back out of a contract with a public adjustor if you've changed your mind," said Banister.

## **Fraudsters face stiff fine, penalties**

Penalties could be severe for those committing insurance fraud, industry watchers say.

Public adjustors could lose their licenses to work in the insurance industry while adjustors, contractors and business owners involved in perpetrating these crimes face charges of insurance fraud and grand theft. The degree of grand theft is based on the amount of money received from the crime. First-degree grand theft under Florida's statutory law is punishable by up to 30 years in prison and up to a \$30,000 fine per count depending on the type of insurance.

With business owners intent on getting their offices structurally sound as quickly as they can, Banister reminds them that adjustors are working hard but thousands of people are looking to get this work done.

"Be wary of fly by night contractors, especially if they make promises that sound too good to be true like fixing some huge loss in a couple of weeks," she said.

State Farm Insurance, the state's largest insurer of homes and vehicles, estimates that there is \$1.3 billion in claim payments from Hurricane Charley alone, the first hurricane this season to hit Florida. State Farm spokesman Tom Haggerty, who works out of Winter Haven, Fla., says business owners should take preventive steps to protect their property.

"Board the windows and try to have a good inventory of all your possessions so in the event of extensive damage this can expedite the claim process," he said. "If your property is damaged, as long as it is habitable make any temporary repairs such as on the roof to keep water from coming in. Keep your receipts and make those repairs."

Haggerty says it's important for business owners not to jump the gun when it comes to hiring a contractor to repair the damage, no matter how gung-ho they are.

"Make sure you see a license [from the contractor] and don't let yourself be rushed into anything," he said. "Like the old adage: if it sounds too good to be true it probably is."

The National Insurance Crime Bureau (NICB), a not-for-profit organization that partners with insurers and law enforcement agencies to facilitate the identification, detection and prosecution of insurance criminals, says that small business owners must maintain their vigilance after tragedies strike.

"A massive rebuilding effort is underway now and you have more than likely the bigger risk for contracting trades people who purport themselves to be licensed to do this work," said Frank Scafidi, public affairs director for NICB. "That's what we're finding -- that's where the bulk of the fraud comes in."

### **Get everything in writing**

Warning business owners about these scams, Scafidi reminds them to always get everything in writing such as the cost of the work, the time frame, guarantees, payment schedule and to ask for references.

"In a post-storm scenario the pressure is tremendous to get back on your feet," he said. "But don't forget to ask for forms of identification like a driver's license."

NICB's investigators and analysts work hand in hand with special investigation units with the insurance companies to uncover any fraudulent activity. There is literally an army of adjustors now in Florida trying to make a difference amid a massive rebuilding effort.

After Hurricane Andrew struck in 1992, Florida saw a toughening of its building codes. One way to shave corners on costs is to skimp on the materials for the construction process.

"Most of these folks [fraudsters] if they can convince owners to 'buy materials' then you will never see them again," Scafidi said. He tells those seeking to rebuild to take a deep breath, really study the paperwork and check references. "The bottom line is to follow your instincts," he said. "If you think it's a little fishy, pass it by."

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