



THE CHARTERED INSTITUTE
OF LOSS ADJUSTERS

FRAUD ESCAPE OF WATER CLAIMS

by the CILA Claims Management Special Interest Group
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1. Introduction

The Association of British Insurers (ABI) have confirmed that escape of water claims, are costing insurers over £2m every day. This figure, along with the reported rise in the cost of building claims is an ongoing issue and the ABI accept it is a problem that needs addressing.

The situation has been compounded by the issues relating to Covid-19 (enforced lockdowns meant a number of tenanted homes were vacated) and the worsening financial crisis in the UK. Since the beginning of 2022, we are seeing increases in fraud connected with unoccupied properties which includes fire and cannabis farms. However, empty properties become a bigger issue when temperatures drop and cause pipework to freeze

If a property owner does not take the appropriate preventative actions (often conditions stipulated in the insurance policy), sub-zero temperatures will highlight those homes that have not been occupied. The increase in claims is no doubt also associated with the rise in energy costs as more property owners will have made the choice to save money and not use heating in their homes.

As we know, damage as a result of a burst pipe can be devastating and more importantly very costly to the property owner.

The increase in claims naturally means there will be more fraud to consider and it is suggested that at least 1 in every 8 claims will be fraudulent. This statistic is based on historical data and we feel the actual number of claims that have fraudulent elements will be much higher than this. In addition to the general increase in EOW claims, the financial strains being experienced by many in the UK will only cause an upward trend in fraud.

To improve our handling of EOW claims we need to ensure our detection process is efficient and ALL claims handlers need to ensure they are considering fraud at all times throughout the lifecycle of a claim.

2. Fraud Detection

IFIC Forensics have documented the most common types of fraud you could see when dealing with EOW claims.

- Water damage in improbable places
- Unusual water staining (e.g. coffee/tea stains used to recreate water stains)
- Dry dust and debris within areas of alleged water damage
- Ceilings being pulled down in unlikely or dry areas of property
- Signs of mechanical damage (e.g. holes or tool imprints to pipework)
- Lack of water staining to timber ceiling joints within areas of alleged high damage
- Blocked or disconnected overflow devices
- Clean cut pipework within the area of origin
- Frozen pipe claims during periods when weather conditions are benign
- Damage to contents/furnishings outside area of the water leak
- Evidence property is unoccupied (tenant unavailable)



The above are types of fraud witnessed by forensic investigators and all are valid but in addition it is worth noting the type of issues we see in SIU on a daily basis. Other than the standard fraud risk indicators we would suggest the following are also concerns that should be considered;

- No available details for the plumber who allegedly undertook repairs – an all too common occurrence and we would insist this information is requested day one.
- Insured insists property was occupied yet no documentation or witnesses to support this. We are often advised the leak occurred when the property was occupied but the tenant has since moved out and is unavailable?
- There are no details for the tenant and no proof of rental payments as rent was collected in person. This is common when dealing with a fraudulent EOW claim and we always recommend thorough investigation.
- Repairs undertaken before adjuster attendance – assess whether going ahead was essential. Are they hiding something?
- When did the incident occur and was cover in place at the time? We are seeing an increasing number of claims where the damage certainly occurred before the insurance policy inception. The value of these claims usually warrants the policyholder continuing to pursue despite knowing they are committing fraud.
- Insured not wanting an inspection of the property – various excuses
- Documentation purporting to substantiate the claim is dubious and estimates are fabricated – this is really common at the moment. We have a current claim where the EOW was deemed genuine and the reinstatement works have been completed costing in excess of £25,000. We have now been presented with an invoice from a hotel for accommodation but following our validation of the document it was proven to be fabricated and the hotel have confirmed this. Insurers are now considering their options as fraud has been proven and they do have a right to recover their financial outlay.
- Loss Assessor involvement – we know that a large number of the assessor firms we see are very professional but there is no denying that some are partly responsible for the increase in the cost of EOW claims. If the scope is exaggerated beyond reason, then please refer these claims to your SIU as we need to ensure we are managing the unnecessary and dubious escalation of building costs.

Disclaimer

This document is an educational guide only. It has been prepared as a general guide to mould and fungi in residential and commercial properties and is aimed at Insurance Companies, Claims Handlers, Loss Adjusters and the wider cleaning and Damage Management Industry. The author will not accept responsibility or liability for actions or inaction by companies or individuals using the information contained in this documented guide.