**What is Insurance Fraud?**

Insurance [fraud](http://www.wisegeek.com/what-is-fraud.htm) is any activity in which people use fraudulent means to obtain payouts from insurance companies. Industry organizations suspect that as many as 10% of [insurance claims](http://www.wisegeek.com/what-is-an-insurance-claim.htm) may actually be fraudulent in nature, demonstrating how common insurance fraud can be, and many fraudulent claims are never firmly identified, causing large losses for the [insurance industry](http://www.wisegeek.com/what-is-the-insurance-industry.htm) as it pays out on such claims. Consumers are impacted directly by insurance fraud even when they don't commit it, because insurance companies are forced to charge higher premiums to compensate for funds they lose due to fraudulent activity.

Car, life, health, and [property insurance](http://www.wisegeek.com/what-is-property-insurance.htm) can all be subject to insurance fraud. In soft fraud, people simply exaggerate an existing, legitimate claim. For example, a driver involved in a car accident might claim that damage to the windshield was caused in the accident, even though it wasn't, forcing the insurance company to replace the windshield. In hard fraud, people actually make up a situation which would result in an insurance payout, either entirely on paper, as in the case of a medical provider who submits claims for services which were never provided, or in reality, as in the instance of someone who burns down a home to get an insurance payout.

Insurance companies use a number of [algorithms](http://www.wisegeek.com/what-is-an-algorithm.htm) to detect insurance fraud. Every time a claim is submitted, the company's computers review it for signs that it may be fraudulent, and suspicious looking cases will be referred to a [claims adjuster](http://www.wisegeek.com/what-is-a-claims-adjuster.htm) or another insurance professional who can review the claim to determine whether or not it is valid. If an insurance company suspects that insurance fraud may be involved, it will investigate to support its case, and may deny the claim on the basis of the outcome of the investigation.

Insurers have been struggling with fraud since they opened for business. A number of nations have laws in place which provide specific penalties for insurance fraud, making it a potentially dangerous activity to engage in, and many nations also support insurance company investigations with [law enforcement](http://www.wisegeek.com/what-is-law-enforcement.htm) investigations which are designed to identify and put a stop to fraud.

There are a few cases in which people may engage in activity which looks fraudulent, but really is not. As long as people file an [insurance claim](http://www.wisegeek.com/what-is-an-insurance-claim.htm) in good faith, if the insurance company has a problem with the claim, the dispute can usually be worked out without needing to involve the law. Insurance companies are also aware that because of concerns about fraud, they may sometimes accidentally flag a claim which is not at all fraudulent, and they are usually open to consumer disputes if consumers feel that they have been unfairly denied. Attorneys general and other government officials can help consumers if they want to dispute denied claims.