

Fraud Arson in Australia — War Without End

(This paper was given by Walter Spratt, F.A.I.I., A.C.I.I., Royal Insurance Australia Ltd., Melbourne, on April 7, at a one-day seminar arranged in Adelaide by the South Australian Committee on Incendiarism and Arson. The views expressed are those of the writer and do not necessarily reflect those of his company).

“Arson causes more dollar damage than any human activity in the world — apart from war”.

— from the film “FIRE BUGS”.

Of all the various forms of arson — fraud arson . . . revenge arson . . . vanity arson . . . riot-initiated arson . . . politically-motivated arson . . . racial or religious persecution arson . . . arson triggered by labour unrest . . . and arson devised to conceal a burglary or other crime — fraud arson emerges as the insurance industry's greatest challenge. Fraud arson also brings claims the industry can and should contain.

The insurance community cannot wage the war on arson alone. Much will depend on the painstaking work of allies — firemen, policemen, loss adjusters, investigators, forensic scientists, and the legal profession. And everything hinges on effective liaison and the co-operation of all.

Only crude Australian fire statistics are available but when these are examined against the background of overseas experience they point to one in every four fires in Australia being deliberately lit. But arson fires are particularly destructive and account for up to 50 per cent of the value of all property destroyed. Fraud arson alone is responsible for about half that figure.

So there it is: fraud arsonists account for one dollar in every four dollars of Australia's total fire property loss. These are the insurance company clients who run the gauntlet and try to evade fire brigade, police and insurance industry detection. Their goal is to convert their fire and householders' policies into cash, often at a profit.

Arson fires are usually more destructive than accidental fires because of the commitment to destroy. Arsonists plan accordingly and about eight out of every ten arson fires are lit under cover of darkness, thus minimising the risk of detection. That in turn widens the gap between the start of the fire and its ultimate discovery, allowing the fire to gain a

firm hold before the frenzied rush of fire brigade units to the scene.

A night-time fire therefore flags the possibility of arson. A fire which totally consumes the property or causes substantial damage also flags arson — for, apart from the time-lags already mentioned, accelerants are often used to boost these fires.

Fraud arsonists are a formidable enemy. Unlike vandal arsonists and politically-motivated arsonists, who don't care if the cause of an incendiary fire is discovered, businessmen and others involved with fraud arson usually take great pains to mask the fire cause.

When the fire cause is “obvious” insurers should be very alert. Consider this example. One Melbourne businessman brought a professional torch down from Sydney to burn his premises. One Tuesday night the torch crashed a rock through the plate glass shop-front. (Don't worry it was insured!). The instinctive reaction of neighbouring businesses and the police was: “VANDALS!”. Two nights later a rock was hurled through a second plate glass window. That immediately satisfied everyone that somebody was conducting a vendetta against this unfortunate business proprietor. And when his premises were burnt to the ground in the early hours the following Sunday morning they were sure of it.

Fires with these characteristics are now more prevalent. Many are lit by

revenge or vendetta arsonists, or those practising racial or religious persecution. Many are not.

Firemen, police officers, insurance claims managers, loss adjusters, investigators and legal representatives should recall that the sole purpose of the fraud arsonist's game is to be paid a claim under an insurance policy. He is well aware that play ceases immediately it becomes apparent he is implicated with the fire.

Those engaged in the fight against fraud arsonists should therefore never take anything for granted. Never! Fraud arson flags should always be sought as a matter of routine. For example, had the owner been unsuccessful in trying to sell his property? Had a rezoning application been refused by the local council? Were major renovations required? (And, equally important: did the fire occur during the renovating period or shortly after expensive renovations were alleged to have been completed?) Had the insurance been with the present insurer for long? Had the cover been increased recently? Was there a cashflow problem? Was the business going bad? Were creditors pressing?

I shall reinforce these comments by quoting two newspaper reports which appeared recently in “THE HERALD”, Melbourne. I wish to stress that no one should conclude from these sketchy newspaper accounts that fraud arson was a factor in either fire. But as case studies illustrating the need to always challenge the obvious, they serve my purpose well.

Here is the first report — and I quote:—

“A family of three had to flee their second-storey flat early today when fire destroyed a neighbouring milk bar. Arson squad detectives were investigating the cause of the blaze . . .

“The fire destroyed the milk bar and extensively damaged a book shop. . . . The total damage was estimated at \$90,000. Mr. . . ., who lives above his jeweller's shop near the milk bar said he was woken up by a sound like fire crackers going off at 3.10 a.m.

"Police said the front windows of the three shops had been shot out last Friday night."

The second "HERALD" report was captioned "NAZI SYMBOL IN FIRE FACTORY" and read:

"Racist slogans, the NAZI swastika and the Star of David, were painted inside a . . . building which burst into flames early today. The building, a clothing factory, was one of five shops damaged by the second fire within the block within 10 days. . . .

"Damage caused by the fire is estimated at \$250,000. Proprietor of the clothing factory, Mr. . . . , said the slogans were not there when he left the building last night. . . . He said one of the slogans read "Burn the Wogs" . . . Mr. . . . said a slogan, "Kill the Wogs" had been painted on the inside wall the previous week. There's definitely some sort of racial insinuation, Mr. . . . said."

I shall now develop this matter further by quoting another recent newspaper account of a fire. Again, conclusions cannot be reached from the report as it is too brief. And of course it may not even be accurate. But for case study purposes it is ideal, for within six sentences one sees two arson flags and a statement attributed to a fire brigade officer which (1) is almost unbelievable in the circumstances and (2) could seriously prejudice police and insurance industry investigations. . . .

The report reads: "Fire destroyed a Ballarat tannery early this morning. First reports say damage could be as high as \$250,000. Five brigades and about 50 men took more than two hours to control the blaze. . . . Flames could be seen from several kilometres away.

"A brigade spokesman said it was believed the blaze started early today in a drying room. There were no suspicious circumstances."

The time of the fire flagged arson as the blaze occurred in the early morning. This was a night-time fire. The fire's destructiveness also flagged arson. The tannery was razed, resulting in a loss of about \$250,000.

The fire brigade statement to the press was made while the ashes were still warm. Who could conclude in the

limited time available for investigation that there were no suspicious circumstances? How could the fire brigade identify the fire cause in a major fire without painstaking and time-consuming work? And where was the report from the forensic laboratory following the examination of debris and soil samples taken from the area where the fire began?

Did someone rationalise that a fire starting in a drying room is synonymous with an accidental fire? (I assure you that if I were a fraud arsonist who owned a tannery I should not consider lighting my fire anywhere else!) Either way, should the fire brigade have then announced to the press: "No Suspicious Circumstances"? I think not.

Education

Hitherto the arson-fighting skills of the army of insurance office claims staff and loss adjusters have been largely inadequate and the general expertise of fire brigades, the police and legal representatives suspect. The training and educational needs of those in the front line fighting arson are therefore enormous.

The balance of knowledge and thus power must be shifted. Those with a primary level of arson education are no match for the growing number of fraud arsonists who have mastered the subject in the university of experience and whose tertiary knowledge allows them to exploit the ignorance of their ill-trained opponents.

For example, how many police officers and insurance claims managers would not be deceived by this ruse despite the evidence of various arson flags? The fraud arsonist increased the cover on machinery and plant prior to the date of the proposed fire, but reduced the sum insured on stock. He rationalised that a loss adjuster could more readily determine the value of the stock, but would find it difficult to establish the worth of the machinery and plant. More importantly, he was confident the police and insurance company would accept the genuineness of the fire, "knowing that no fraud arsonist would be stupid enough to halve cover on his stock before having a deliberate fire". . . . Had it been known that the cover

before the reduction was four times the stock's real value different conclusions might have been reached.

The current Australian Insurance Institute study courses barely mention fraud arson — or any other kind of insurance fraud. That will change when the A.I.I.'s new syllabus becomes fully operative in 1984. Meanwhile, the education of a generation of insurance men and women has suffered.

Of course it is very easy to be wise after the event — I can say that as a member of the Australian Insurance Institute's Council — but the urgent need for extensive education in the field of insurance fraud has only lately been identified.

The Institution of Fire Engineers, the professional body for fire brigade officers in the United Kingdom, India, South Africa, Australia, New Zealand, Canada, South-East Asia and elsewhere has also been paying scant attention to arson and incendiarism in its examination syllabus. The I.F.E. has tucked the topic away among 25 topics covered by the subject "Fire Ground Operations".

There has been a dearth of questions on arson and incendiarism in the examinations over the years — although there was a question in March 1980. The examiner asked: "When called upon to investigate the cause of a fire, what factors would make you suspect arson?". That has been the only direct question asked by the I.F.E. over at least the last five years.

However, arson investigation cannot be conducted in a vacuum. That is implicit in the theme for today's seminar — "Better Liaison Between the Interested Agencies". Enthusiastic liaison will occur when all the parties are educated about the problem. Only then will the fire services, police, forensic scientists, insurance industry and legal profession grasp fully what their roles are and why co-ordination is essential.

That allows me to compliment the South Australian Committee on Incendiarism and Arson for organising today's seminar and thus promoting education in this field. It must please you to know that yours is the only arson standing committee in Australia apart from the comparable body in Victoria. Sydney, Brisbane, Perth and

Hobart are yet to follow Adelaide. Perhaps the various organisations in the other cities are too busy with their fires to have time for a standing committee on arson.

Before leaving this critical matter of education, I should mention that the best reference material I have seen on arson is a two-volume, 580-page, loose-leaf manual now available from the United States. It has been written as a comprehensive training guide for insurance claims staff, loss adjusters, the police, fire services and legal profession. I believe copies should be kept at the head office and major branches of every insurance company. The police and fire services will certainly require copies and I know the volumes will become the prized possessions of loss adjusters and legal representatives specialising in the arson field.

The titles of the two-volume set are "**Arson Investigation**" and "**Arson Prosecution**". The volumes are published by the California District Attorneys Association with a grant from Aetna Life and Casualty Company. The cost, which is therefore heavily subsidised, is US\$60 for the complete set. The volumes may be obtained from the California District Attorneys Association, 555 Capitol Mall, Suite 1545, Sacramento, California, 95814, U.S.A.

I should mention that experts throughout the United States were consulted by the authors and the insurance fraternity in Sydney may be suprised to learn of the notoriety achieved by their fair city — for under the heading of "**Organised Crime**" one reads:

"As insurance fraud has become more and more profitable with a relatively low risk of discovery, organised crime members have used this as a means for easy money. In Sydney, Australia, Italian gangs were burning each other's premises for insurance money. A classic ploy is to 'scare out' the owner of a business, buy the property cheaply, make cosmetic changes, hike up the insurance coverage, and arrange to have the property burned. The final step is collecting on the insurance policy".

Fire brigade and insurance industry personnel are doubly fortunate. Two booklets are available to expand their knowledge.

Firstly, there's the "little red book" for firemen. This remarkable booklet should be in the breast pocket of every fire brigade officer in every fire brigade in Australia. Entitled "A Pocket Guide to Arson Investigation", it covers in 28 pages the various stages of an alarm — from the initial report, through extinguishment, overhead and physical evidence collection. It contains, as a bonus, a fold-out arson investigation flow chart, produced by the Massachusetts Firefighting Academy. Members of the fire and police services may obtain this publication at the special price of 50 cents from: Factory Mutual Engineering and Research, 1151 Boston-Providence Turnpike, Norwood, Massachusetts 02062, U.S.A. (Insurance industry personnel and members of the legal profession, who should also find the booklet helpful, are required to pay US\$1 a copy).

The great attraction of the second booklet is the worth of the information it conveys in 40 pages on all the major types of insurance fraud — motor vehicle property and personal injury, fake business burglary, lost baggage tricks, mysterious boat disappearances and of course arson for profit. Small business arson, arson-for-profit rings and home fires all get a mention.

Entitled "Insurance Fraud, the Insurance Crime Prevention Institute Handbook for Insurance Personnel", this publication is free. Copies are obtainable from: James F. Ahern, director, The Insurance Crime Prevention Institute, 15 Franklin Street, Westport, Connecticut 06880, U.S.A. Ask to be put on the mailing list for the Institute's quarterly newsletter, "I.C.P.I. Report". (However, one should expect to pay for that service).

I have dwelt on the need for education and training deliberately. Pockets of appalling ignorance on the problems of arson, and the counter-measures needed to combat them, are encountered too frequently. There is little doubt that the ignorance of the insurance industry, police, fire services, loss adjusters and the legal profession has hitherto applied the brakes on action.

Fanning the Flames

Arsonists in Australia have no greater champion than the media.

There is little doubt that television and newspapers have promoted arson and led to its growth.

If you tell people often enough that arson is a difficult crime to prove; that the police are almost impotent when confronted by it; that millions of dollars are being reaped each year in Australia by fraud arsonists; and then, for good measure, mention some of the methods used to set fires, you should not be suprised if dishonest people in the community respond to the challenge.

The crime of arson has been sensationalised and romanticised. This irresponsibility should no longer be tolerated. The lives of firemen and others are at stake. (You should need no reminding about the Centrepoint fire in Adelaide which resulted in the death of Noel Sprigg, a member of the South Australian Fire Brigade. That was an arson fire).

The "**60 Minutes**" programme on arson shown on Channel Nine in July last year is a case in point. In my opinion the "**60 Minutes**" programme fanned the flames of arson. I believe there was no justification for showing among other things a candle and describing its use as a timing device.

Examples of negative newspaper reporting abound. Regrettably many of the statements are attributed to police and fire brigade officers.

A story run in the "Sydney Morning Herald" only weeks ago broadcast the following messages to the populace.

Before having your fire increase the insurance cover significantly. The insurance company won't ask any questions.

If you intend to use a "torch" don't engage a cheap one — \$500 to \$1,000 only buys trouble. A good professional "torch" will cost more initially, but the guarantee of a first-class job will save you money and perhaps "time" later.

After the fire don't worry needlessly about being caught, the police don't investigate all suspicious fires and even when they do attend they're usually hopeless.

Here then are excerpts from the "Sydney Morning Herald" article in question:

"One detective with long experience in dealing with arson

said, 'Anyone with a policy can ring up and speak to a clerk in an insurance company and double their insurance in a few seconds. From the moment they hang up their property is worth twice as much. With that kind of incentive it's no wonder we have so much arson', he said."

"... A yahoo will burn a place down for \$500 or \$1,000 but you run the risk of him being caught. A professional is considerably more expensive but he will act with tight security and do a job that is practically untraceable'."

"... Not all suspicious fires are investigated by police. In 1978 the Special Breaking Squad, which handles arson, investigated 869 fires. Other fires are checked by divisional detectives who often do not have the time or experience to cope with the protracted insurance investigation'."

It that wasn't enough a District Officer of the New South Wales Fire Brigade had in the same article this advice for landlords who wished to increase their rental returns:

"... The owner of a building that is old and only returning low rents will light a series of small fires or even one big one, to drive the tenants out. Then with the money from the insurance claims he will refurbish the building and charge higher rents," he said."

The fire brigade officer then in effect nominated the property owners he thought should entertain that proposition by saying:

"This may become a significant happening in the inner-city areas of Sydney, particularly as properties become more valuable."

Six weeks ago there was an article on arson in the "Sunday Press" newspaper in Melbourne. The article was even promoted by television advertising in advance of its publication. It suffices to say that the story was largely negative in character. Among the matters reported was the tit-bit that Victoria's Arson Squad often falls two or three months behind in its investigations. That I can believe,

for the squad probably fell well behind when work accumulated after the "60 MINUTES" television programme, and it is likely to fall behind again now that the "Sunday Press" article has appeared.

Arson Prevention

The title on the brochure for today's seminar is "How To Catch a Fire Bug", a subject I shall return to shortly. But before doing so, I suggest we consider an equally critical subject — arson prevention!

If fewer arson fires are lit there will be fewer arsonists to catch! Even a moderate reduction in arson fires would result in the preservation of property worth millions of dollars and stem the flow of losses ultimately mirrored in the premiums paid by Australia's policyholders.

Our work therefore has scarcely begun. Firstly, there is an urgent need for the police, fire brigade authorities and insurance industry to tell the media they have been unintentionally promoting arson fires. The problem should be discussed at the highest State and national levels; for example, the Press Council and other peak media councils should be consulted. We should also counsel our own people. All newspaper, radio and television coverage on arson should be monitored and the necessary action taken immediately "arson-promoting" reporting is encountered.

I certainly am not suggesting a black-out on arson stories, but emphasising the need for responsible attitudes. We should co-operate with the media and provide them with the raw material for the hard-hitting stories they relish. However the accent should always be on the positive — like the report in "The Australian", headed "Insurers Crack Down on Fraud", or the story which appeared in the "Financial Review" under the title "Bedevilled Companies Now Light Fires Under Arsonists". Reference was made in the latter story to the explicit message being conveyed by the giant Aetna Life and Casualty Company to its policyholders in the USA. I now quote part of that company's statement:

"People will burn properties insured at Aetna at their own risk. We will investigate thoroughly. We will

co-operate with police, fire officials and prosecutors. We will develop evidence against you. And if it can be shown that you burnt your own property or caused it to be burned we will not pay."

That, incidentally, also reflects the attitude of Royal and a growing number of companies in Australia, including, I believe, AMP Fire and General, AGC Insurance, Commercial Union, GRE, RACV Insurance, NRMA Insurance, CML Fire and General, Colonial Mutual General, National of N.Z., T&G Fire and General and General Accident. Perhaps that is one reason why the law lists are growing.

There is little doubt that negative reporting on arson creates a favourable climate for the propagation of arson, while positive articles and reports tend to discourage its spread.

Enlightened insurance companies are now practising arson prevention by reintroducing the sound underwriting principles of yesteryear, abandoned during the recent mad scramble for business. There should be no need for me to tell you what that entails — but the proper screening of proposers and properties is obviously essential. Underwriters should not overlook the significance of good proposal and claims form design in this regard.

Arsonists are only human. Success breeds confidence and leads to repeat fires and frauds. Because undetected arson tends to lead to a proliferation of arson the police and fire services have a unique contribution to make in the arson prevention field.

These then are the questions I should like to ask the fire brigades (comparable questions might also be asked of the police): What percentage of the fire brigade budget on fire prevention activities is spent on fire investigations and identifying fire cause? How many specialists work in this specific area? How much time and effort is expended on these critical tasks? To be honest the absence of statistics on fire cause in the 1980 Annual Report of the Fire Brigades' Board of South Australia makes me fear the answers, but perhaps unnecessarily so; for one of the main activities of the Fire Prevention Division is, I am pleased to see, investigating and reporting on causes of fires.

To Catch a "Thief"

I have highlighted the need for education and training, because that is the obvious place to start. Do not overlook the legal profession in that regard.

I have a simple test. It applies not only to insurers in Adelaide, but the insurance industry in Perth, Hobart, Melbourne, Sydney, Brisbane and Darwin too. If you, or your claims managers, cannot readily tell me the names of at least two members of the legal profession in your city who have developed expertise in the fraud insurance field you haven't yet begun to grasp the problem. It should be apparent why I call for the names of individuals rather than the names of firms.

Time does not permit my discussing at length the significance of fires involving some ethnic communities. Every police officer I have spoken to certainly believes that ethnic background may be an important factor in the fraud arson equation. A Sydney loss adjuster was even reported as saying recently about members of one ethnic community, and here I quote: "It is as if these people came to Australia and discovered insurance." Perhaps an objective study (by, say, a research fellow at one of the universities) should be undertaken to determine whether some ethnic groups are over-represented in fires. The limited evidence available suggests that members of the Chinese community are better risks than Occidentals.

There should be a free-flow of information about fires — past and present — between the police, fire services and insurance industry. Such communications are vital if the various agencies are to function properly and successfully wage the war against arsonists. The cry for

privacy by some should not be used as a shield for secrecy — not when the greater interests of the public are at stake.

I shall now bring together the threads of my address by quoting the points made by the American Insurance Association in a public statement about affordable insurance. The message is relevant to our own market. This is what member companies of the American Insurance Association said they were doing:

- "Trying to take the profit out of arson by more extensive investigation of claims and by co-operating in the prosecution of more persons involved in 'suspicious' fires.
- Supporting the Insurance Crime Prevention Institute's investigations of insurance fraud.
- Conducting arson-detection seminars for insurance personnel.
- Developing the Property Insurance Loss Register — a computerised file of previous-loss claims which will alert investigators.
- Encouraging State Legislators to pass stricter laws that carry heavier punishments for arson.
- Encouraging community and State arson task force programmes to deal with arson problems on a local level."

My paper has been devoted almost exclusively to the problem of fraud arson. I have done that deliberately. Not only is fraud arson the greatest single cause of property loss by arson, but it is a crime which directly involves the insurance industry's own policyholders — people and companies with whom we have a special relationship. In that respect fraud arson is analogous to rape — a crime largely committed by friends, relatives and acquaintances of the victims.

The insurance industry should therefore learn much more about some of its policyholders, preferably in advance of their fires, but certainly always after. For attempts by fraud arsonists to rape the community are successful only if the perpetrators' efforts are ultimately rewarded. The fire services, police, insurance companies, loss adjusters, forensic scientists and legal profession have a duty to see that fraud and other arsonists receive their just reward — which is much more than they have learned to expect and, in a sense, far less than they richly deserve! #

Resolutions Passed at S.A. Arson Seminar

At the conclusion of the seminar in Adelaide on April 7th, "How to Catch a Fire Bug" the following resolutions were passed:

"This seminar recommends that in view of the increasing incidence of Arson for profit that it is desirable that a special force be formed utilising the existing facilities for the special investigation of these events with Government funding."

"That insurance policies be amended along the following lines:— The company shall itself or through its agents solicitor or a loss adjuster engaged by it to assess, adjust or report on the claim, be at liberty to disclose any information whatsoever relative to the insured, the proposal for insurance, the property insured, the property destroyed or damaged, or the claim to **police, fire brigade, taxation or any other investigatory body having a bona fide interest in investigating the cause or quantum of the destruction or damage or to any official engaged to act or acting on behalf of any such authority or body.** #

Kindly Sponsored By...

DANCE RAMA

PRINCIPAL ROY VITETTA
SCHOOL OF DANCING

All Types

* Jazz Ballet * Tap Dancing * Classical Ballet
* Old Time * Disco * Ball Room * Latin American

Class and Private Lessons Given Daily

* No Age Limit * No Contracts

13A MARION ST, BANKSTOWN, 2200

PHONE: 707 2109

97 WARE ST, FAIRFIELD

PHONE: 727 0131



GARUGA KENNELS
Boarding for Dogs and Cats

Breeder of Australian Silky Terriers, Beagles and Australian Kelpies.
Puppies usually available.

Mrs Walker
PARK ROAD
LUDDENHAM N.S.W.
ENQUIRIES
PHONE: (047) 73 4124