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COVERING THE BUSINESS OF LOSS

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Insurance Fraud & Megayacht Claims

By Richard Wickliffe, CPCU, ARM, CLU

Fortunes come and go, and so will reports of insurance fraud. If the 2008 Great Recession was any indicator, an increase in bogus claims will be tied to poor economic conditions, arguably launched by the coronavirus pandemic. Hardships have induced people to collect from insurance, creating “opportunistic fraud.” This equally applies to the wealthy for exorbitant assets such as yachts and large vessels.

During the pandemic, authorities responded to fewer incidents unless injuries were involved. That permitted inflated property claims, including theft, fire and sinking. Without official reporting, investigations were further hindered by less forensic evidence and minimal personal inspections, which were discouraged during quarantines.

Even the affluent, as their savings dwindle and profits shrink towards bankruptcy, have been tempted to make desperate choices. Fraudulent insurance claims are perceived as victimless to escape bankruptcy, losing homes, vehicles and luxury vessels. Insurance carriers are seen as having deep pockets and able to compensate policyholders for any misfortune.

Boats are among the most expensive consumer assets on the market. Some “megayachts” retail for as much as \$500 million, with annual operating costs of up to 10% of their value. Ironically, despite their cost, they seem disposable. Boats can sink, catch on fire or be stolen. Perils can occur in the middle of the ocean, with scarce evidence or witnesses. This applies to commercial vessels as well as luxury yachts.

FAKE PIRATES FOR A \$100 MILLION INSURANCE SCHEME

In a startling example, Marios Iliopoulos, the Greek owner of the cargo vessel *Brillante Virtuoso*, staged a bogus Somali pirate attack to collect \$77 million from his insurance carrier. Just as a pleasure boater might torch their own vessel, Iliopoulos had hired “pirates” to attack and burn his ship and cargo to submit fraudulent claims.



According to *The Wall Street Journal*, the staged attack included seven armed men posing as security guards who boarded the vessel near Yemen. The men fired shots on the bridge and detonated an explosive, which spread fire to the engine room. The attackers then departed the ship. A mayday call was received by a U.S. Navy cruiser, the *USS Philippine Sea*, which immediately responded. As the crew evacuated, the fire escalated, causing a total loss to the vessel and its cargo. Over \$100 million in cargo went down with the ship.

That's not the worst part. David Mockett, a marine surveyor who had been hired to investigate the attack, was murdered shortly thereafter by a car bomb. He'd been investigating inconsistencies, which included the fact that Iliopoulos' many businesses were nearly bankrupt. And then there was the question of why did the marauders start a fire and flee rather than seize the ship and demand a ransom? According to other industry reports, Mockett's murder was in retaliation for what his investigation had uncovered about the staged hijacking.

The case occupied London's High Court for over 20 weeks. A High Court judge ruled in favor of Lloyd's, the vessel's insurer, after a 52-day trial. According to the published decision, there was no Somali pirate attack. "Any such attack on the

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vessel was staged with the involvement and connivance of the owner.”

Regrettably, the case involving Mockett's murder stalled in 2021, without any conclusive evidence linking the death to the vessel's owner.

FRAUD KINDLED BY COVID

Our government has unwittingly created more avenues for fraud. In 2020, a Florida businessman used coronavirus bailout money to purchase a \$700,000 luxury catamaran. Casey Crowther was charged with making false statements to a lending institution to receive more than \$2 million from the government's Payroll Protection Program (PPP). The program offered low-interest business loans to maintain payroll, help retain employees and help make mortgage payments.

Crowther applied on behalf of his roofing company. Ten days after he received \$2 million, he wired funds to a Sarasota company to purchase the forty-foot yacht. A Department of Justice report stated the Secret Service investigated the case and Crowther was charged with bank fraud, making false statements to a lending institution and illegal monetary transactions. The feds seized his boat and Crowther was sentenced to three years in federal prison.

COVERAGE FOR SEIZED RUSSIAN YACHTS?

Having written articles and books about Russian offenders, I still needed a refresher on the definition of an “oligarch.” Splashed across the news was how the United States had seized oligarchs' yachts in response to Russia's invasion of Ukraine. An oligarch is otherwise defined as an extremely wealthy business leader with a great deal of political influence (primarily Russian).

Who is paying for the seizures and exorbitant upkeep of the yachts? Would you believe we are?

In April 2022, the U.S. seized billionaire Viktor Vekselberg's *Tango*, a \$95 million superyacht. The 255-foot vessel features a beauty salon, spa and jetted pool. When the *Tango* was seized, it was a victory for the Department of Justice's new



KleptoCapture unit, a group formed to track down the assets of Russian oligarchs who were associated with President Vladimir Putin.

However, the story doesn't end there. The cost of maintaining the vessel could exceed \$9 million a year.

So who pays? Unknown to most of the public, when the government takes custody of assets belonging to sanctioned individuals, the government becomes responsible to keep the asset in good condition. In addition, the U.S. would need to employ experienced staff to maintain the yachts.

According to *Bloomberg*, a federal prosecutor appointed to lead the KleptoCapture initiative said that individuals within the Department of Justice work with insurers to ensure the necessary insurance is in place and that the yachts are properly maintained so they don't lose their value.

In May 2022, the Justice Department seized the *Amadea*, a megayacht owned by Russian oligarch Suleiman Kerimov, known as the "Gold King." The \$300 million vessel's running costs amount to \$25-\$30 million per year. A DOJ spokesperson said in a statement to ABC News, "When the United States decides to pursue an asset for forfeiture, the costs mentioned above are borne by the Government."

THIS MEANS ALL OF US, THE TAXPAYERS.

What about insurance? This would require case-by-case verification, considering the language within the policies. However, common clauses with marine policies contain exclusions for war, or damage caused by capture, seizure, arrest or detention. Then the damage would have to be proven to have been caused by the seizure itself.

Even if an exclusion is disputed, the vessel's insurance could be canceled. Seized vessels create a serious liability to ports and harbors without any guarantee they will be safely maintained.

According to *The Marine Executive*, "When a vessel is seized, it may no longer be in Class and under Flag, and any insurance is likely to have already been revoked." From that moment, the yacht becomes a liability to the state.

Another way to challenge coverage is if the vessel loses its insurability. Without ongoing care, vessels can quickly lose their value.

If a superyacht were to go without a crew, sometimes requiring more than 25 people in some instances, the vessel would fail inspections and lose its insurability due to safety risks. Without insurance, the vessel would be unable to dock in most harbors, ports or marinas around the world.

A VAST SEA OF FRAUD POTENTIAL

Losses of such assets due to financial downturns or international conflicts will ultimately be paid by the public through increased premiums or taxes.

Though deceit can exist in every corner of the insurance industry, marine losses are among the most challenging. Investigation requires expertise and perhaps less evidence. If a policyholder on terra firma were to torch their business or stage a loss, there would be witnesses and physical evidence. However, a boat might simply vanish or sink in the dead of the night, within any of the world's 139.7 million square miles of water.

Whether the trigger is an epidemic, recession or war, industry professionals need to work together with the same resolve used to fight the pandemic itself. We may not be able to solve our economic or infectious environment, but the steps we take now may help avoid a fraud pandemic.

Richard Wickliffe, CPCU, ARM, CLU (RLWickliffe@yahoo.com), has worked in the insurance industry leading fraud investigators for over 20 years. He enjoys speaking about unique fraud, cyber and crime trends at venues including the FBI's InfraGard Counterterrorism conferences, and is also the author of crime fiction.