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## Boat owners hoisting salty stories of fraud

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Schemes hard to detect when evidence is on bottom of the sea

The Coast Guard cutter arrived just as the decks of a 65-foot motor yacht disappeared beneath the surface of the Pacific Ocean five miles off Southern California. A passing craft had radioed the Guard. They rescued the vessel's owner and his buddy from a nearby dinghy.

"The guy's story was he was 12 miles offshore when he heard a thump," says Todd Schwede, a certified marine investigator and owner of the marine investigation firm Todd & Associates in San Diego. "He figured he'd better head back to shore. He found four feet of water in his engine room. He said his batteries weren't working; he couldn't make a radio call."

Schwede became involved when the owner filed a \$300,000 total-loss insurance claim. The case sent "red flags up our fraud flagpole" from the beginning, he says: The decrepit old wooden boat was insured for triple its actual value. The owner was entangled in a legal mess over past-due dockage fees. He also was trying to sell the craft. And the unwanted boat recently had been spotted sinking at the dock—twice.

Schwede used side-scan sonar to locate the wreck, and hired a remote-controlled mini-submarine to take a look.

"There's no damage to the bottom of the boat where he would have hit something," Schwede says. "A technical diver dove the boat in 311 feet of water with a video camera. The boat was totally stripped of the stove and the refrigerator—all the things you wouldn't take off a boat if you were trying to sell it."

Boating scams like these appear to be thriving. Though nobody has exact numbers, three of four boat theft claims are fraudulent, estimate Schwede and another investigator, Jim Sanislo of South Florida.

Boat schemes could be pulled from the playbook of auto swindlers. Much like the "owner giveup" in auto fraud, shady owners often

sink and burn their vessels for insurance cash. Then they'll claim someone stole it, or it sunk in an accident. Owners often stash their "stolen" boats at their vacation home or warehouse, then sell it. Some owners pay smugglers to sell their vessel overseas.

Insurance schemes can run the gamut from million-dollar motor yachts to small recreational vessels. Motors and other expensive equipment also mysteriously disappear and end up as shady theft claims.

The market for boats—and fraud—is large. Nearly 18 million boats were being used in 2005, the National Marine Manufacturers Association says. More than 864,000 new boats worth \$14.7 billion, including motors, were sold that year. The value of the 1 million-plus used powerboats sold topped \$9.1 billion.

The motives and opportunities for boat schemes abound:

- The boat won't sell, or is worth much less than the owner thought.
- The owner is behind on payments, or tired of rising dockage fees.
- Premiums have doubled or tripled since the 2005 hurricanes.
- Higher fuel prices take the fun out of boating.
- Many marine policies also are written based on "agreed value"—with the boat never depreciating—rather than at market value like a car.
- Insurance agents may grossly over-insure boats, either for higher commissions or because they're unsure of the actual value.

Boat schemes go beyond fake thefts or deliberate scuttling. Owners might have an equally crooked boatyard pad repairs by including the cost of upgrades or routine maintenance, or disguising a mechanical repair as an insured accident.

"The big one is called the plastic bag routine," Sanislo says. "What happens is, the motor overheats. Well, picking up a plastic bag around your (cooling) water intake is a covered peril. However, a disintegrated impeller is not a covered failure. It's just mechanical failure. They'll often say they saw the plastic bag slipping away right after the engine stalled."

But tracking down scams can be daunting. The anti-fraud infrastructure isn't as evolved as with auto investigations. Boating databases aren't well connected and have less information than auto databases, says Dave Dempsey, an investigator with the National Insurance Crime Bureau (NICB).

The NICB collects hull and component serial numbers, but there are thousands of boat makers—including tiny family businesses. This

makes collecting full information “a much-more-onerous task,” Dempsey says.

Nor is there an easy way to search hull ID numbers across several states.

“You can steal a boat from California and register it in Arizona,” Dempsey says. “There is no computer system talking state to state.”

More than a dozen states don’t require boat registration at all. So crooks can report a boat stolen in one state, deposit the insurance check, move the boat to one of those states and keep using it undetected, investigators say.

Evidence to prosecute insurance fraud—or even deny a claim—also can be hard to obtain. Sending down a sub can be too expensive or even impossible in deep water, and so many deliberate wrecks are never found.

But Schwede has a reliable way to swat down many suspicious claims: Find lies in the insurance application, then refund the premiums and rescind the policy.

“It’s as if there was never a policy,” Schwede says, and therefore no claim.

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Some boat schemes just don’t hold water

Some boat schemes are fishier than the biggest fish tales. Here are three whoppers:

Beverly Hills lawyer Rex DeGeorge made a lucrative career of sinking yachts in deep water, where the wrecks couldn’t easily be investigated. But DeGeorge himself finally was sunk. The Italian coast guard caught him drilling a hole in the hull of a \$1.9-million motor yacht. DeGeorge blamed Russian pirates. But a skeptical court swapped his stateroom for seven years in a California jail cell.

Where do you store a 24-foot powerboat? Lots of places. But not, as a Massachusetts man claimed when he reported his stolen, in a locked 21-foot garage. Sometimes an insurance investigator’s best tool is a tape measure.

What better source of a fraud tip than the angry ex? That’s how investigators busted a man who claimed his 19-foot powerboat was stolen in Virginia. Investigators found the craft in plain sight in his front yard—for sale.

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