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Enough Is Enough! Insurers Around the Globe Are Taking a New View on Fraud

By Jeffrey T. Bowman

Insurance fraud has been around since the industry was created. Details change as society and economic circumstances do; collecting premiums for bogus health plans and faking high-cost vehicle claims apparently are on the rise now. What has stayed the same for many years is the lack of appetite for preventing and punishing such behavior.

Ineffective anti-fraud policies among insurers, including those that accepted a certain level of fraud as a part of doing business, and inadequate regulation and law enforcement have played a part. So has an attitude among the insured that sees fraud as a victimless crime against companies with deep pockets: an interesting point of view considering that those who buy insurance pay higher premiums thanks to fraud.

However, in today's economic climate, insurers around the world have a reduced tolerance for fraud and its multi-billion-dollar price tag. Rather than focusing on the cost to establish fraud reduction programs, they are taking a longer view and considering the potential return on investment, which runs at least 7:1 according to our calculations. Where new business proposals once included only a few questions about fraud management, now we sometimes see 10 pages on the topic. To reduce leakage and improve profitability, insurers are adopting new and improving old solutions to help identify and eliminate fraud.

C-level promotion of anti-fraud strategies. Fraud has become a concern at the C-level in many organizations, and insurers who operate both regionally and globally are developing comprehensive, top-down anti-fraud measures. Fraud prevention is becoming a central function with internal control systems and audits. Anti-fraud policies are reinforced with business values, procedures, training and measurement of results. That last bit is important; as we all know, what gets measured is what gets done, especially when the CEO is paying attention.

Additional data analysis and sharing. While databases with pooled claims data were established years ago in some countries, insurers and companies that specialize in fraud detection are making investments in analytical software to help identify risk trends and patterns in their data. And they are further sharing that information with industry databases to assist in more proactive fraud detection and prevention.

Predictive fraud modeling also is on the rise. Similar to the applications used by credit card companies to flag potential fraud while users are actually making purchases, this technology can capture and match data sets against profiles to see where fraud might be happening in real time.

Increased use of effective claimant interviewing techniques. Computer applications are not perfect; they can't prove fraud, but can only expose the risk of it. Computers also can't talk with claimants to try to identify deceptive personal behavior. More than a decade ago, the industry introduced open-ended questioning techniques that take advantage of what we know about the psychology and mechanics of lying to help identify fraudulent claims. Historically, those techniques have been used for adjusting homeowners and auto claims. But because they have been successful, adjusters are adopting them for use with many other types of claims, including travel, warranty and liability.

Putting the teeth in anti-fraud efforts. Insurers and claim administrators can uncover fraud and refuse to pay claims. Shared data can help identify greater risks and assign premiums accordingly. Governments can pass and publicize anti-fraud laws, but law enforcement puts the teeth in anti-fraud efforts.

The U.K. and United States lead the way in regulations designed to govern the insurance business and laws to prevent and punish insurance fraud. But 2009's well publicized arrests of several travelers in connection with alleged insurance fraud in Brazil will not be the last ones we hear about in other countries.

As developing nations become wealthier and insurance markets grow, so do the opportunities for fraud and its potential costs to insurer, policyholder and the public. Legislators interested in upholding the health of their insurance industries and societies in general will pass laws designed to punish fraudsters. More important, they will back them up with effective regulatory bodies and enforcement activities. Enough is enough, indeed.

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global view