


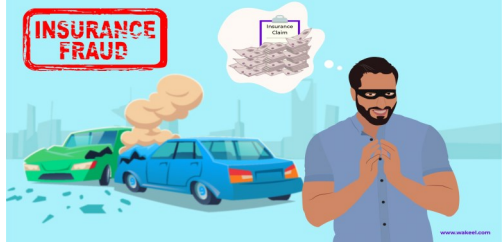
# News Letter

## COMBATING INSURANCE FRAUD HOW TO DETECT AND PREVENT IT!

### What is Insurance Fraud?

**Insurance Fraud** is ANY attempt to defraud an insurance company. This can be done by a **seller** or a **buyer** and is possible in almost any insurance class including life, health and property.

### How do Sellers and Buyers commit Insurance Fraud?

Sellers	Buyers
<p><b>Sellers</b>, such as a broker may collect insurance premiums and <b>NEVER</b> provide a policy to the applicant. Examples include premium diversion, fee churning and asset diversion.</p> 	<p><b>Buyers</b> may misrepresent information on an application (<i>premium fraud</i>) or make <b>FALSE</b> or <b>EXAGGERATED CLAIMS</b>.</p> 

### Hard and Soft Insurance Fraud

#### Hard Insurance Fraud



"Oh him- he just faked his death. He's hanging around here until the life insurance pays out."

This involves entirely false insurance claims where the claimant either fabricates a claim or **INTENTIONALLY** inflicts damage that will result in an insurance payout. It is intentional, requires significant planning and **PRE-MEDITATION**. The criminal has **every** intention to commit the fraud from the **VERY BEGINNING**, before the process has even started.

#### Soft Insurance Fraud

This involves exaggerating legitimate claims to increase payout amounts or misrepresenting information on an application with the aim of obtaining lower premiums. Soft Insurance Fraud is sometimes considered a **CRIME OF OPPORTUNITY**. Persons who commit Soft Insurance Fraud **DO NOT PLAN** to commit the fraud from the beginning and **DO NOT BEGIN** the process with the *intention* to defraud the insurer. These individuals start the process with a **LEGITIMATE CLAIM** and, during the process, **believe** they have an opportunity and the means to take or get more money than they are entitled to.



#### Example of Hard Insurance Fraud

Simon faked his death so his life insurance policy can be paid out.

#### Example of Soft Insurance Fraud

Sarah was involved in a vehicular accident. She exaggerated the resulting damages or injuries and inflated her claim to the insurance company.



## How Insurance Fraud Differs in Different Insurance Classes

Insurance policies operate similarly, regardless of the class. Fraud prevention efforts can therefore be handled using many of the same measures. Fraudsters, however, operate differently depending on the type of insurance they are currently targeting. This, therefore results in various fraud tactics, each specifically and specially formulated to target a single type of insurance.

### Life Insurance

Life Insurance Fraud is mostly completed at the application stage, where applicants would **MISREPRESENT PERSONAL INFORMATION** with the aim of receiving a lower premium. They may sometimes lie about personal details including their income, assets and personal health. While uncommon, persons may also fake a critical illness or death.

### Motor Vehicle Insurance

Some individuals may submit false or exaggerated claims to their insurance providers. Some may even solicit the assistance of individuals deemed crucial to the process to add credibility to the claim, such as a:

- \* **Mechanic** - To provide documentation on damages that never occurred, on repairs that were never actually done, or on exaggerated prices.
- \* **Law Enforcement Officer** - To falsify a police report.
- \* **Doctor** - document injuries that were never sustained.

### Medical Insurance

Individuals may attempt to obtain medical benefits by misrepresenting or concealing pertinent information. They may make false medical claims or conceal (do not disclose) pre-existing health conditions on applications. In other cases, physicians may bill for falsified or non-existent services, exaggerate the true cost of the work completed, overcharge customers and even provide services without a valid or active medical licence.

### Property Insurance

Individuals may falsely claim, stage and/or exaggerate claims for damaged property. This may involve inflating the value of a claim or staging a fire to destroy items that could not be sold, with the aim of receiving a payout. These claims may sometimes involve arson, as a fire would destroy the evidence that would prove the insurance claim was staged.

## How to Catch and STOP Insurance Fraud

### 1 Develop Clear Policies and Procedures

The Insurance Company should develop clear policies and procedures to establish the measures that play a major or key part of the company's decision-making and risk management process. These policies should explicitly state or detail the procedures to follow when completing certain tasks and provide instructions on how to handle specific cases and address different types of suspicious behaviour.

### 2 Investigate Claims Thoroughly

Many insurance fraud schemes can be detected at the point the claim was made. To ensure that exaggerated and/or false claims are detected and stopped, the claim and all supporting documentation (including receipts, bills, health records, medical fees, damage reports, police reports) must be reviewed and investigated **THOROUGHLY** before the claim is processed. It is important to ensure the claim is actually real and is not exaggerated.

### 3 Conduct Internal Audits

The most common type of insurance fraud is **PREMIUM DIVERSION**, which is committed by insurance brokers or agents. It is therefore crucial for insurance companies to ensure that sellers are operating within their bounds, premiums are being collected and paid towards policies and all in-force policies are legitimate. This can be achieved by conducting an audit of the procedures and operations of its brokers and agents.

Conducting an internal audit is considered a great method to identify insurance fraud already committed by employees. The presence of an internal audit department may also deter employees from actually committing fraud.

### 4 Conduct Proper Customer Due Diligence & KYC Procedures Before Issuing the Policy

The Company should ensure that the customer's identity and all documentation and information submitted are **VERIFIED** at the **BEGINNING** of the relationship and **BEFORE** the policy is issued. It is important that the Company confirms that the applicants are not falsifying information on their application forms or being dishonest about their identity.

Applicants can fabricate details about themselves on the application form (personal information, medical records, income etc). Therefore it is **VITAL** that the Company verifies the information being provided or submitted for the insurance policy **BEFORE** approving and issuing the policy.

### 5 Monitor Policy Changes

Changes made to an insured's policy may indicate insurance fraud. It is important that any document or information (e.g. medical records) submitted to change the policy is reviewed and validated by the Company, to confirm the legitimacy and verify the requested changes. Changes should also be supported by a record of the client's instructions to validate the request and if applicable, the insurance agent's actions.

Activity and Event Monitoring tools or systems can track changes to various policyholders' accounts. This may combat **ACCOUNT TAKEOVER FRAUD**, where a criminal who may have gained account entry, may attempt to make a claim, make changes to passwords and contact information, transfer the policy or even change the name of the beneficiary.

Monitoring policy changes may also indicate if insurance agents are conducting premium diversion or fee churning. The presence of adequate and efficient audit programs may also prevent and deter staff from conducting insurance fraud schemes.

## A Real Life Scenario – State Farm and the US Supreme Court

An article found on NRP.org detailed the following case relating to Insurance Fraud:

**IMAGINE THIS**

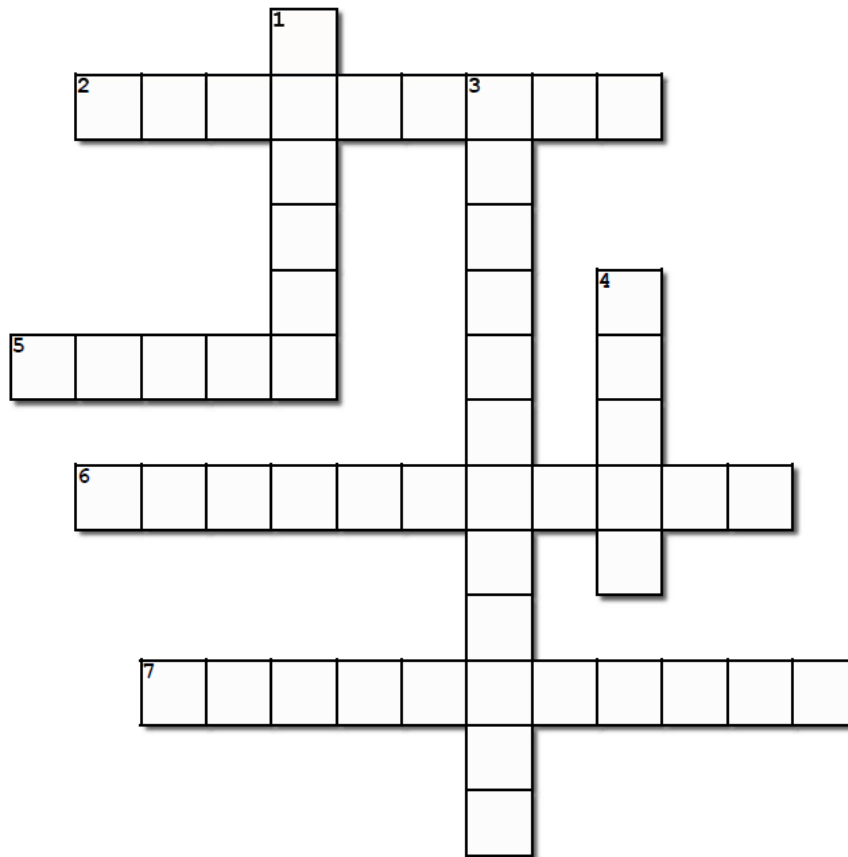
“The U.S. Supreme Court has upheld a jury verdict finding that State Farm Fire and Casualty Co. defrauded the federal government after Hurricane Katrina hit the Gulf Coast in 2005.

In the years before the hurricane, State Farm issued both federal government-backed flood insurance policies and general homeowners policies. After the hurricane, the Company ordered its claims adjusters to misclassify wind damage as flood damage to shift liability to the government and spare the insurance company's coffers.

The fraud was uncovered when two claims adjusters, sisters Cori and Kerri Rigsby, blew the whistle on the Company under the federal False Claims Act, which allows private citizens to initiate fraud claims on behalf of the government, and ultimately to share in the damages that are awarded.

In 2013, the Rigsbys won their case, which involved one home in Biloxi Mississippi State Farm was ordered to pay \$750,000 in damages, with 30 percent going to the sisters and the rest going to the federal government.”

**THINK**



**Across**

- 2. Premium \_\_\_\_\_ is the most common type of insurance fraud.
- 5. Hard fraud involves entirely \_\_\_\_\_ insurance claims.
- 6. You should always \_\_\_\_\_ claims thoroughly!
- 7. Soft Insurance Fraud is sometimes considered a crime of \_\_\_\_\_.

**Down**

- 1. The Company should verify the identity of the customer \_\_\_\_\_ the policy is issued.
- 3. All claims should be \_\_\_\_\_ thoroughly.
- 4. A company's internal policies should be \_\_\_\_\_.

**References**

[Combating Insurance Fraud: How to Detect + Prevent It - Blog | Unit21](#)

[www.npr.org](http://www.npr.org)

**Key Words**

- 1. Before
- 2. Diversion
- 3. Investigated
- 4. Clear
- 5. False
- 6. Investigate
- 7. Opportunity

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