

A DIFFERENT APPROACH TO DEALING WITH INSURANCE FRAUD

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Introduction

It is clear that insurers are committed to reducing the fraud problem in the industry and have provided greater resources to combating all types of insurance fraud generally throughout the industry.

However, what this article will highlight is despite the progress made by the insurance industry fraud is increasing significantly and the attitudes of people towards insurance fraud has not changed. It appears to be socially acceptable to fraudulently claim from an insurer. This article will outline what is needed is emphasis on changing the public's attitude to and awareness of insurance fraud. What is required is an international strategic advertising campaign on insurance fraud similar to the campaigns on copyright awareness. The author believes that only with this emphasis of changing attitudes will see a reduction in insurance fraud. These media campaigns will have to be simultaneous and conducted internationally.

The Insurance Perimeter

As we are aware insurance fraud can be internal or external. Such frauds can be categorised as agent broker premium diversion, reinsurance fraud, rented assets schemes, phoney insurance companies, staged accidents and health care fraud. In addition to combating these types of crime, the industry is also currently burdened with money laundering and terrorist financing which can be difficult to investigate given the international nature of insurance arrangements.

Insurers have sought to combat these schemes by introducing anti-fraud measures such as computerised data base index systems, profiling, use of special investigation units, filing civil law suits and closer liaison with specialised police or regulatory bodies.

Investigations into large insurance fraud are resource intensive and expensive, it requires an understanding of foreign laws and procedures not to mention the complex issues of involving data protection and privacy laws protecting the rights of individuals. Although co-operation between the insurance industry and regulatory authorities is good, there is often a lag time in receiving vital information which has a capacity to interfere with the outcome of the investigation.

The Cost of Fighting Fraud

An interesting question that has to be asked is what is the extent of fraud and what resources are spent to combat it. Some key factors that you might find interesting:

UK

- Bogus and inflated insurance claims cost over £1.5 billion a year.
- This adds at least 5% to premiums paid by each policy holders

(Insurance Fraud Bureau & Association of British Insurers, July 2006).

Australia

- Total paid out for fraudulent claims each year estimated A\$1.4 billion.
- Fraud adds A\$70 to the cost of each policy. 10% of claims are fraudulent

(Insurance Council of Australia)

US

- Total cost of insurance fraud is US\$120 billion per year.
- Bodily injury claims account for over 50% of all fraudulent insurance

(National Insurance Crime Bureau)

It is clear that there has been an increase in insurance fraud over the last five years. However I acknowledge there has been some head way made in anti-fraud efforts. An example is in the US where a concerted effort has been made to combat insurance fraud. Information from US State Fraud Bureaus between 2001-2004 indicated that anti-fraud efforts had reduced fraud in the insurance industry:

- Criminal convictions increased 31%
- Case presented for prosecution rose 14%
- Investigations initiated increased 18%
- Referrals of suspected fraud action increase 4.5%

One observation from the above information is that when one considers, the extent of the fraud and the resources spent on combating fraud, there does not appear to be a high percentage decrease in fraud over the five years. In fact there has been a call from insurers to obtain greater assistance from the Police and the Prosecution units to deal with insurance fraud. More recently, Nick Starling from the Association of British Insurers said "Insurers are committed to reducing the fraud problem. We are devoting greater resources to weeding out the cheats, and working together to detect and combat fraud."

"These figures highlight that greater deterrents, such as criminal prosecutions, are needed to discourage fraud. This is why we are calling for police forces to be given more resources so that fraud can be treated with the seriousness it deserves."

It is clear that the concern of the insurance industry is at the increase in fraud is adding at least 5% - 7% to the premiums paid by honest policy holders. Accordingly, fraud cannot be allowed to escalate otherwise honest people will not be able to afford their premiums and start choosing not to insure themselves because of the increase in costs. There comes a point for each household as to how much can be allocated towards insurance from the family budget.

Changing in Attitudes

Recent information suggests that the attitudes of the public towards cheating insurers has not changed:

- One in ten adults in the UK admits having cheated on insurance (*Times online, July 2007*)
- 35% of Americans said it was alright to exaggerate insurance claims
- 24% said it was acceptable to increase the amount of claims to make up for insurance premiums (*Insurance Research Council, June 2000*)

The fight to combat insurance fraud is getting harder and that the attitude of the public towards fraud needs to change. The public perception is that you will get away with small frauds and that current research appears to be that there has been no marked change in the past five years in the growth of fraud. Ultimately it appears that the smaller scale frauds are still relatively easy to get away with because the resources are not there to combat it.

What Can Be Done?

The question I ask is are we fighting 21st century insurance fraud with 19th and 20th Century approaches. What is needed is a consolidated industry approach requiring an anti-fraud campaign which has a clever line similar to the international media approach in copyright fraud. The industry needs to bring the fight against fraud in both small and large claims to the criminals. In addition strategic action needs to be taken in the civil courts to combat fraud as it is unlikely that the police forces and regulatory bodies will have the resources to tackle the problem.