



The Fraud in Our Claims

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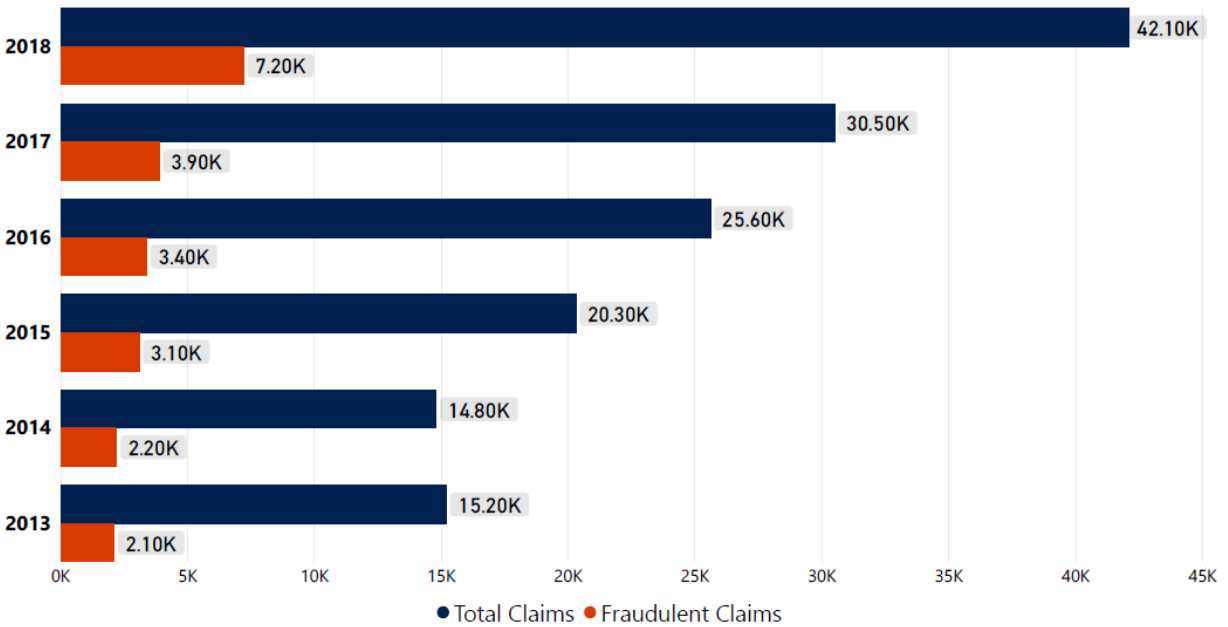
Too many fraudulent claims have put Mrs. Adnan in the spotlight and she must present a solution to her boss. There are many options to consider. The solution she picks could either be a game changer for Mrs. Adnan or set her further down on the wrong track

Introduction:

It's late in the evening, Mrs. Adnan is imagining all the good times with her kids and her husband. She could be with her family right now, but she's still at work. She can't remember the last time she had dinner with her family. Mrs. Adnan has been working with FrontLine Assurance Limited for over ten years. FrontLine is like a second home to her. She started off as a senior officer and now she's the head of the claims department and one of the few women in senior management.

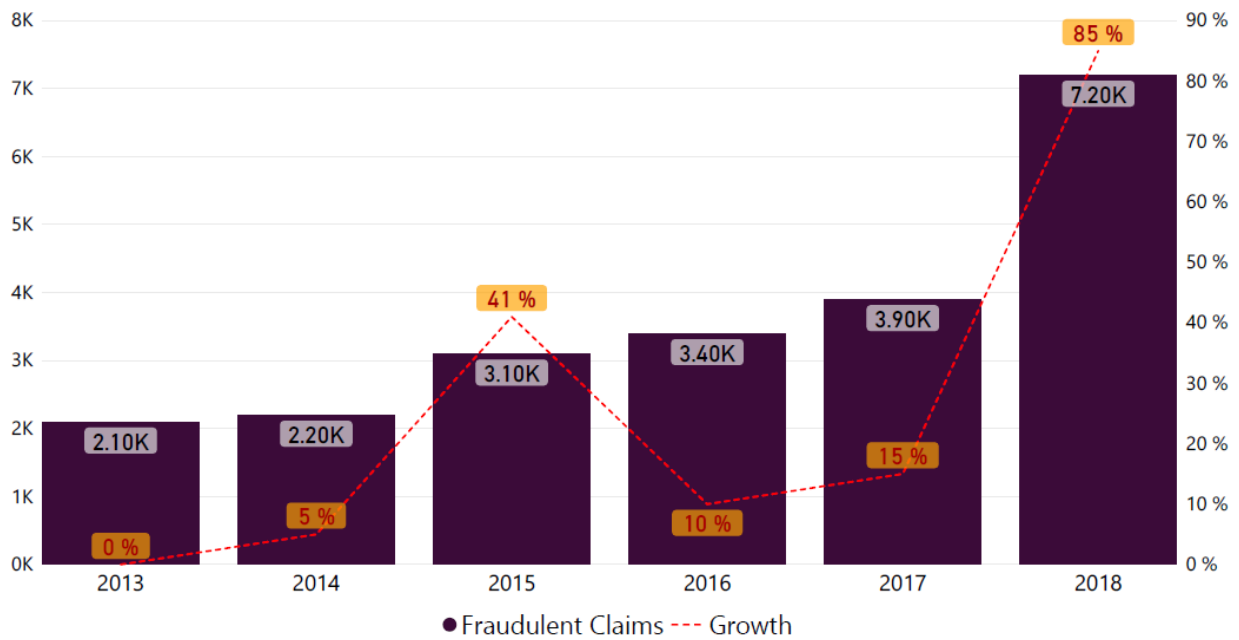
It has been a tough year for FrontLine Assurance Limited, especially for the claims department. This is the sixth consecutive day where Mrs. Adnan is staying late. She gets to work early in the morning and comes back home late at night. The number of fraudulent claims being detected is growing rapidly and the department is working longer hours to ensure everything is being done right. But it isn't sustainable, and the increasing rate of claims detections is raising eyebrows both within the department and higher up the ladder. Mrs. Adnan is under a lot of pressure. She needs to find a solution to either fully stop these fraudulent claims from occurring or find a way for early detection. She has been researching this issue, but she cannot decide which way to go. She's not only worried about the company but she is also getting stressed for the customers because a rise in fraudulent claims could increase the premium for the customers. Since the insurance industry is huge and very competitive, it's highly unlikely that the customers would keep paying high premiums when they can pay less for a policy in another company.

Claims Trend



There has been a drastic increase in total claims of the company. While there were 15,200 total claims in 2013, there are now 42,100 total claims in 2018 and the year has not even ended yet. Let's not forget the probability of there being unidentified fraudulent claims that just got lucky.

Growth in Fraudulent Claims



There has been 85% growth in the number of fraudulent claims from the previous year and it is a very troubling situation for the company. Mrs. Adnan has a lot of emails to answer to regarding this. The CEO has scheduled a meeting regarding this issue and all eyes are set on Mrs. Adnan to produce a game plan.

As the pressure is building, she needs to hold on to her nerve and come up with a solution for this problem. She decides to have a meeting with her team to decide what their next step should be. As the meeting proceeds, the team starts brainstorming trying to find a way that they can improve their accuracy of fraud detection and radically decrease their late sittings and overtime.

No one on the team wants to compromise on their customers. So whatever decision they make, they need to think about all the parties that would be affected by it and to put their customers first. Ernest Hemingway wrote, *'Courage is grace under pressure'*. So what Mrs. Adnan needs to do is be courageous enough to experiment, get new ideas, and produce tangible results. *'Innovation requires an experimental mindset'* is what Denise Morrison once said.

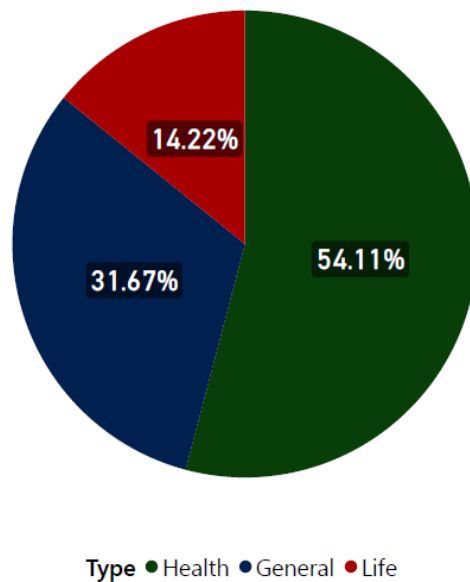
The Details

The meeting starts, and Mrs. Adnan explained to her team that insurance fraud is not just the insurance company's problem. It is also the insurance holder's problem. The more fraud there is, the more premium there is for the policy holders to pay. They would have to pay a lot less if there were less fraudulent claims. According to FBI statistics, non-health insurance fraud costs \$40 billion annually, which you cover by paying annual premiums \$400 to \$700 higher than they'd be if there were no fraud at all.¹ One of the team members suggests starting a PR campaign that would stress the legal actions taken against those customers who commit insurance fraud. Mrs. Adnan found this idea quite useful but asks for more options.

Insurance fraud can be sometimes very difficult to identify. You need a strong Claims team to decide where to put red flags and plenty of systems and processes in place to support that team.

¹ source: [Theim](#).

Fraudulent Claims by Insurance Type



In 2018, FineLine Assurance Limited recorded that 54.11% of its fraudulent claims came from health insurance. Claimants often buy policies right after being diagnosed by a disease, so that they can get a claim for their treatment. That puts a red flag on those claimants and they need to be investigated. However, sometimes they just get lucky or the claim is legitimate. So, identifying fraud can be very tough as separating these two cases is often difficult. 14.22% of the fraudulent claims come from the Life insurance industry. Allegedly deceased individuals drive claims for life assurance payouts and commit fraud through family members. There have even been cases where a life insurance policy has been bought for a dead person. If the claimant is caught with these fraudulent claims, he/she is faced with criminal charges. 31.67% of the fraudulent claims have come from the general insurance.

Mrs. Adnan asks her team not to blame everything on the claimants. Sometimes there were unseen loopholes exploited in the company itself. Sometimes, there were agents who were also involved in fraud. There are a lot of other ways to try to cheat the system while early detection was difficult.

Mrs. Adnan has herself listened to the calls where claims were made. She took part in the investigation process and she is more convinced that she needs an early warning system that could identify fraud. While fraudulent claims seemed to defy a pattern there were some markers that distinguished them from legitimate claims. While looking out of the glassed wall of her office, Mrs. Adnan ponders upon the reasons for these fraudulent claims, she felt that the customers should be educated about the consequences of committing fraud.

Options and implications:

Mrs. Adnan and her team are sipping tea. They have come up with quite a few ideas. These ideas could either be very fruitful or could further increase the losses. And there is always room for innovation. In a

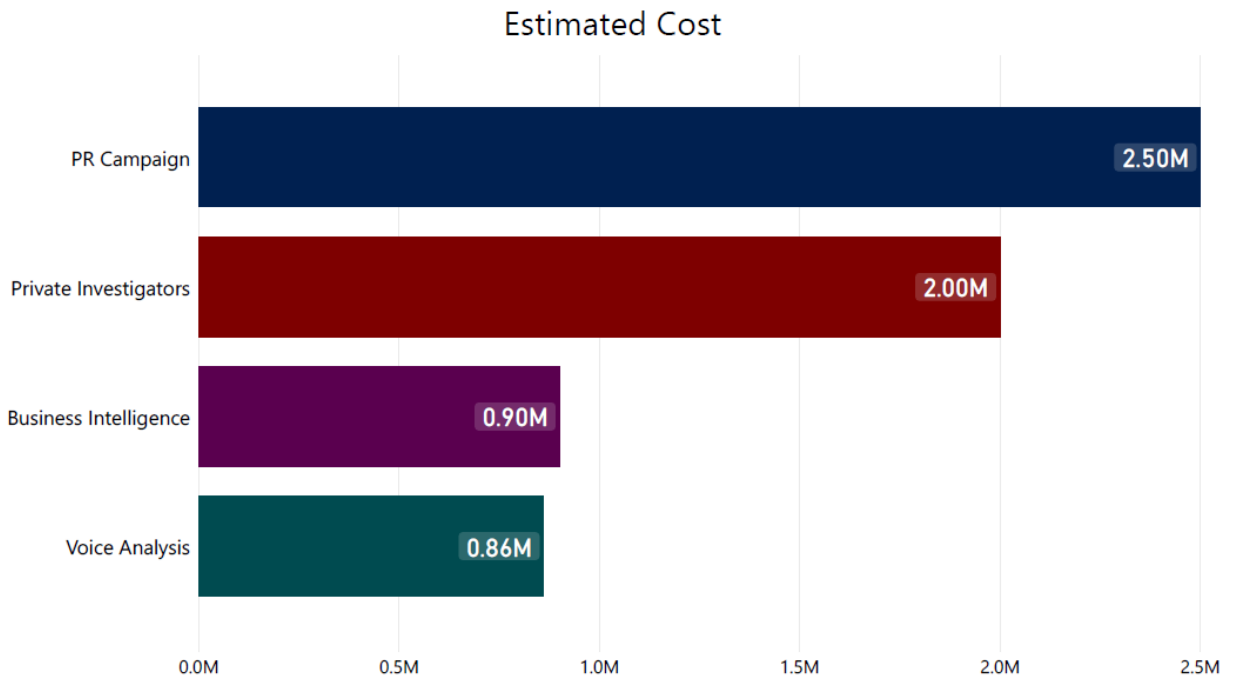
technology enabled business environment, there are ways to make the claims process intelligent. The use of a PR campaign to warn their customers about the consequences of committing insurance fraud is another option. Using predictive analysis is yet another. Bringing business intelligence into the claims department to make the process smooth is attractive but time and cost intensive. Beefing up the claims investigation team, outsourced and internal, is also something which Mrs. Adnan can consider doing.

Mrs. Adnan came up with the idea of putting red flags on certain claims that exhibit the markers that she has found. She explains to her team the various scenarios where the claimants' behavior could be suspicious, and they could put a red flag there. If a claimant has submitted a very large claim for example, and their behavior seems at odds or suspicious to the circumstances of the claim, put a red flag over it. It is nearly impossible for a claimant to get into an accident or lose something and stay calm. This doesn't mean that it is not possible. But it is recommended to investigate such cases. Hand written receipts for repairs on an item should also be an alarming sign for the company since they can alter whatever it is written on the receipts. A medical claim made by an employee whose job is ending soon should also alarm the insurers. Mrs. Adnan and her team should know that these scenarios might also be present in legitimate claims, but they need to be proactive in identifying the possible fraudulent claims which they can investigate further.

Mrs. Adnan could use private investigators. She could check suspicious claimants through their social media accounts. Nowadays, people brag about everything on social media. Fortunately, for insurers, a lot of people make such mistakes on social media. The PR campaign is looking more useful at this stage.

Doing voice stress analysis can also help in identifying fraudulent claims. For example, if the claimant sounds calm after submitting a very large claim, that means there's something wrong. But we cannot just rely on this program because not every claim is made on phone.

Someone in the team pointed out that there were mounds of data available in her company but were not being used the way they could be. There could be many analyses done on this data with the help of Business Intelligence. BI could help study claimants' histories whereas predictive analysis tools could help perform predictive analysis with the help of that history using the markets Mrs. Adnan has identified. There are many data analytics tools available in the market which could be used for this purpose and help Mrs. Adnan and her team in early detection of any fraudulent claims coming their way. Mrs. Adnan is quite excited about introducing business intelligence in her department. She thinks that this could help her take control on the rise in the number of fraudulent claims. It can help her in taking care of the fraudulent claims but also, help her with the data present and provide better insights to gain a more holistic view of the company's performance. Best of all, it was non obtrusive; a chance for a negative impact on the customer perception of the company was negligible.



The graph above shows the estimated cost for the options discussed above. By looking at this, Mrs. Adnan can make a better, thorough decision.

Conclusion:

Mrs. Adnan's had the options in front of her but now she needed to pick one.

Business Intelligence and big data analytics are expected to have a huge impact on the insurance business in the future. But what about her present? Using private investigators can also work to identify insurance fraud. But how many private investigators would Mrs. Adnan need? Social media investigations could be of help in studying the suspected claimant. But what if the claimant doesn't use social media? the pros and cons of the options in front them seemed never ending.

Let's not forget the fact that the company is already suffering from the increase in fraudulent claims, and any new step taken *could* backfire as well compounding the issue. There are customers as well who trusted in FrontLine to look after them in their time of need. Their interests should be foremost. There's too much on stake for Mrs. Adnan, her team and the company. Whatever decision she makes, is going to affect all the stakeholders of the company, whether directly or indirectly. Her team is young and wants a solution they can be excited about – they're leaning towards technology, but she isn't fully convinced and is struggling to make a call. What should she do?