

# Curtailing Fraud Incidences in Insurance

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# Insurance Fraud- Background

- Insurance business by its very nature its susceptible to fraud
- It accounts for a significant portion of fraud in the world of commerce and industry
- Large accumulation of liquid assets make Insurance companies attractive for looting schemes

# Insurance Fraud- Background

- And if this scourge is not addressed insurance companies have a lot to lose
- The Impact is dreadful: Increase premiums, inflating costs, getting out of business

## What is Fraud Cont'd?

- The intentional use of deceit, a tricky or some dishonest means
- to deprive another of his or her property or a legal right.





# Elements of Fraud

- False representation of a material nature
- Scinter-knowledge that the representation is false
- Reliance- The person receiving the representation reasonably and justifiably relied on it
- Damages- Financial damages resulting from all of the above

# Understanding the Forces Behind Fraud: The Fraud Triangle



# What is Insurance Fraud

- It is an attempt to defraud an insurance company
- This can be done by both buyers and sellers i.e. the insured or sellers
- It can be done in almost any insurance industry i.e. life, health care, property,
- For buyers , insurance fraud typically involves misrepresentation of information or making false or exaggerated claims
- Sellers may involve collecting premiums and never provide a policy
- Or get involved in “sliding” “twisting” or “churning” of policies





# Categories of Insurance Fraud

There are two main categories of insurance fraud and these are

## i. **Hard Insurance Fraud**

- An entirely false claims
- An internationally fabricated claim
- Pre- meditated, requiring planning from the start
- It is about a claim on an event which did not occur eg accident
- It has a higher consequences for insurers than Soft fraud





## ii. Soft Insurance Fraud

- It involves a legitimate insurance claim to increase the pay outs amounts
- Or misrepresentation of information on an application form to obtain lower premiums
- It is a legitimate claim except it is exaggerated
- It is often called a crime of opportunity
- They start with a legitimate claim and at some point in the process believe they have the means to make more money



# What Acts Constitute Insurance Fraud?

- Falsifying or misrepresenting information on an insurance application
- Falsifying information on an insurance claim
- Staging an accident or fake injuries
- Claiming an existing motor damage as part of a new accident
- Filing Health care claims after the injured party has already recovered



## Types of Insurance Fraud

- There are various insurance products available to consumers such as life, health care, automobile, property etc
- Each industry faces different fraud challenges unique to the policies crafted in that area as follows;

### **Life Insurance**

- i. Fraudulent death claims
- ii. Murder for profit
- iii. Vanishing premiums



## Types of Insurance Fraud

### **Property Schemes**

- i. Inflated inventory
- ii. Phoney or inflated thefts

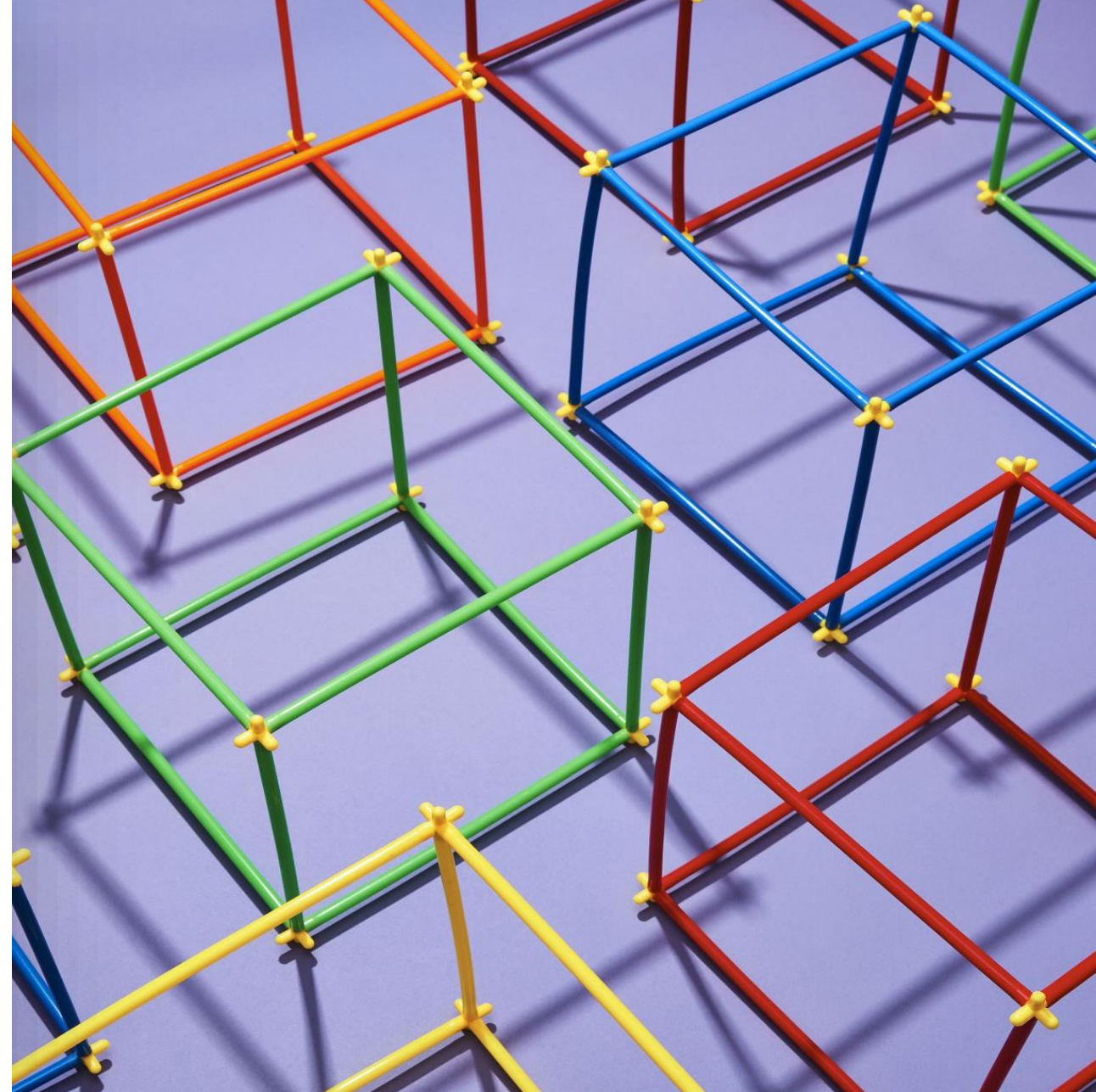




# Types of Insurance Fraud Cont'd

## Vehicle Insurance Schemes

- i. Ditching
- ii. Past Posting,
- iii. Vehicle repairs
- iv. Phantom Vehicles
- v. Staged accidents



# Types of Insurance Fraud

## Cont'd

### **Health Care Fraud**

- i. Fraud by medical Institution
- ii. Beneficiary fraud
- iii. Kick backs in the health Industry
- iv. Fraud in Special Care facilities
- v. Provider Fraud



# How To Curtail Fraud Incidences

## ***1. Tone at the Top***

- This is unwritten rule
- Conduct of the Chief Executive Officer and other corporate leaders
- What does the CEO stands for
- Values, beliefs,



## 2. Develop a Fraud Control Plan

- Regulatory frame work
- Communication Intent
- Risk Identification
- Limiting Opportunities





## a. Regulatory Framework

### i. Acts of Parliament

- Relevant Acts covering industry players i.e.
- They should speak to developing and maintaining adequate internal controls



## Regulatory Frame work Cont'd

### ii. The Public Interest Disclosure ( Whistle blowers Act)

- It facilitates the making of disclosure of any improper conduct
- The Act sets out the procedures for disclosures and provides protection to a person who makes disclosure



# Regulatory Framework Cont'd

## iii. **Develop Clear Policies and procedures**

- Standards and procedures should be a prerequisite to the development and implementation of a fraud control program
- In the absence of standards and procedures, internal controls will not be able to address the control weaknesses in place or the control objectives in place





## b. Communication Intent

### Fraud Policy

- The industry players must make known what it stands for when it comes to impropriety
- Its attitude and approach on matters of fraud must be well articulated and documented.
- The Fraud Policy must be communicated to the employees and other stakeholders such as the providers and the insured





## Code of Conduct

- What is expected of all the stakeholders both internally and externally in terms of behavior?
- These must be properly articulated and designed
- Tone at the Top- It must be so clear and assertive in regard to enforcement



## C. Identifying Risks

- To develop an effective fraud control framework the industry players should have a good understanding of fraud risks
- They must engage in fraud risk assessment which must involve all discrete processes from underwriting to assessments of claims
- In carrying out risk assessments both on internal and external threats the industry player should ensure that the aspect of risk assessments forms part of the overall risk management strategy



## d. Limiting Opportunities

- Once a fraud risk profile has been established during a risk assessment process the industry player should respond with designing and implementing dedicated internal controls
- i.e. systems, processes and procedures- You can never pinpoint red flags in the absence of effective systems, processes and procedures
- At the moment I have noted that most fraudsters prefer to go through brokers





## f. Monitoring

- The aspect of monitoring is critical to fraud control frame work
- There must be a clear monitoring policy with defined procedures which must be well documented
- Compliance Officer- Each industry player must have a designated official to provide oversight services besides other control mechanism which could be in place
- Internal audit must also provide assurance to management on the effectiveness of the internal control in place





### 3. Verify the Customer Before Issuing the Policy

- One of the first steps insurance companies need to take to prevent fraud is to **verify the customer and their information**
- From the point of their application , insurance companies need to make sure an applicant isn't falsifying information or their identity

## 4. Education and Compliance Program

- Develop a Comprehensive Compliance Program.
- Establish a written compliance plan outlining clear policies and procedures for detecting and reporting to fraud
- Conduct regular training programs for your staff on identifying and preventing fraud, including proper coding practices and claim submission protocols.
- Customer Education- consequences on dangers of fraud, claims process can reduce false claims.
- Provide educational materials such as brochures



## 4. Collaboration with Stake holders

- Work with law enforcement agencies and other private organisations specialized in fraud Risk Management .
- Share information with other health insurance providers to identify and track fraudulent practices across the industry.
- Encourage communication with your insured members and educate them on how to identify and report potential fraud.



## 5. Investigate Claims- Widely and Deeply

- Investigations will serve as a deterrent to insurance companies staff, brokers and the insured
- The age-old adage “Trust , but verify” rings in the insurance industry
- Many insurance fraud schemes occur at the point of the claim- either the claim is exaggerated or entirely false



# Investigate Claims- Widely and Deeply Cont'd

- To make sure that claims aren't going undetected it is important to thoroughly investigate the claims.
- The suspicious claims should be subjected to a real investigation and not confirmation or validation only. The investigation should be;
  - i. Well planned
  - ii. Well Executed
  - iii. Well Reported- with admissible evidence



# 6. Types of Investigations

## Reactive Investigations

- This is the most common type of investigations which involves investigators responding to complaints or a given situation
- It has a terms of reference





# 5. Types of Investigations Cont'd

## Pro- Active Investigations

- This type of investigations involves where there is no specific allegation or complaints
- No specific matter or allegation exists to be resolved either before the administrative tribunal and /or Court of Law



# Pro- Active Investigations Cont'd

- **Claims Auditing:** Implement a robust claims auditing program with a mix of random sampling and targeted reviews based on specific codes, service types, and providers.
- **Leverage data analytics** to identify **patterns and red flags** in claims data, like unusual billing practices, outliers in service frequency, or inconsistencies compared to patient demographics.
- Utilize claims editing and scrubbing software to automatically identify potential errors or fraudulent claims based on pre-defined rules.



## 7. Industry Integrated Data Base-Bureau and Data Analytics

- The insurance industry should or must have an integrated system which should be used for background checks on the following
  - i. Name of the prospective client
  - ii. Physical address
  - iii. Claims paid out
  - iv. Illegitimate claims etc.
  - v. Past prosecutions etc.
- **Data Analytics** Tools- Can help insurers detect fraud early by analyzing patterns and anomalies in claims data to find potential fraud
- Eg the use of a software called FRISS solutions for underwriting, claims and insurance fraud investigations





# *The End- Thank you*

“ For it is better to fail with honor than succeed by fraud “