FC Business Intelligence

Fighting fraud on the front lines: Apprehending the fraudster at your front door

Front-loading fraud controls in insurance

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Battling Fraud on the Front Line

It is said what doesn't kill you makes you stronger but the reverse might be true for the insurance industry. Innovation in marketing automation and predictive tools has strengthened insurers competitively, improving customer experience and driving consideration. However, a drive to improve customer experience is also arguably increasing insurers exposure to fraud.

Insurance fraud is big business. The Coalition Against Insurance Fraud in North America conservatively estimates that fraud takes $80bn a year across all lines of insurance. Property-casualty fraud costs $32 billion a year[1]. In Europe, the UK government proposed reforms in December 2015 that ends the right to cash compensation for minor whiplash injuries. As one of the most abused areas of motor insurance fraud, it is estimated this will create a saving of $2bn overall and reduce premiums by an average of £50, around a fifth of the typical annual policy with full No Claims Discount (NCD)[2].

Any support that insurers get from outside agencies is to be welcomed as most admit, tackling insurance fraud on the front line is a growing challenge. In fact, in his statement surrounding the UK Government announcement, the Justice Minister, Lord Faulks, laid some of the blame at insurers' feet, implying a rush to increase business was part of the problem:

"We are determined to crack down on the culture of fraud and exaggerated claims in the motor insurance industry. [...] This culture is boosted by an industry that encourages exaggerated claims through cold calling and it is right that we tackle this."

Increasing the appetite for fraud detection

Executives interviewed for this paper might disagree that they are chasing poor or fraudulent risks for the sake of numbers. However, there is a sense of agreement that improved technologies, third party networks and a highly competitive market-place make it difficult to tackle the problem head on.

"Part of the problem is the appetite for fraud detection in the broker channel. We've had to convince brokers to protect us against fraud because by sending us that business, they ultimately end up suffering too," explains Steve Jackson, Head of Financial Crime at Covéa Insurance. "Brokers see sales as a volume and growth business rather than one built on quality and as a company, we are always interested in quality."

Andy Pagett, Counter Fraud Manager at Ageas, agrees. "With our business model we receive new business via various routes and fraudulent accounts can end up on our books before we can do anything about it. As such, we look to support and educate our brokers and affinity partners to try and raise awareness of tactics that might mitigate that fraud", he reveals.

Pagett adds that this is not a challenge faced by 'direct to market' Insurers, such as

1 http://www.insurancefraud.org/statistics.htm#.Vt0k8VuLTnA
2 https://www.gov.uk/government/news/insurers-vow-to-pass-on-whiplash-reform-savings

Direct Line who can add extra validation at point of quote. However, appetite for detection is only one side of the fraud coin and the growing trend for automation in marketing and client onboarding is also a significant contributor to insurers' fraud woes.

"We have to investigate whether or not our quote data is accurate but you can't do it in a quotation environment. It's too fast moving. We want to be able to make decisions quickly about people so we need access to data and to remove the problems caused by speed. Aggregators don't really help in this regard. They're great for marketing but we want the right decision, not a quick one," Jackson worries.

The problem is that identifying fraud at the point of quote requires a good deal more information and context than that provided by form-filling, either from an aggregator, a broker or even direct to the insurer. The insurer needs to tread a fine line between investigating fraud on an average policy (combined home: £288[3]; motor £367[4] (ABI)); providing a quote that is both competitive and delivered quickly and maintaining their margins. In other words, is it worth their while?

"Insurers are nervous about turning away good business and they want to make sure they corner as big a piece of the market as possible," Jackson adds. While technology can help them access this market, it can also muddy the waters.

This is because technology can allow customers to manipulate the information they give insurers and it's difficult to tell at the point of quote whether this is for innocent or nefarious purposes. In some cases, learnings from customer quote behaviour has led to improvements in customer experience.

When buying cars, both new and second-hand, many online dealers offer an insurance quotation widget. This comes from the learning that buyers would often use a car insurance aggregator to input a range of car details to see which resulted in the lowest premium.

However, fraudsters might also do this to see how low they can go. With customer journeys now trackable online through cookies and other personally identifiable information (PII), should this mix and match behaviour be penalised?

A UK national newspaper[5] even provided a six step process to help insurance customers 'game' the system to reach the lowest quote. There was no suggestion in the article that users should behave fraudulently, however it did demonstrate that automated insurance applications were a blunt instrument when it came to risk assessment and open to abuse.

"Quote manipulation is something systems already monitor and try to decide between what is acceptable and what is misrepresentation. We have to balance someone making a sensible comparison with someone who is lying. It's very easy NOT to sell insurance to people who are genuinely good customers," Jackson warns.

3 https://www.abi.org.uk/News/News-releases/2015/07/Cost-combined-home-insurance-continues-fall-compared-to-last-year-with-average-cost-just-5-54-week

4 https://www.abi.org.uk/News/Industry-data-updates/2015/07/ABI-average-motor-insurance-premium-tracker-Q2-2015-data

5 http://www.mirror.co.uk/money/get-cheap-car-insurance-quotes-5486199

Technological breakdown

The natural response to challenges created by increasingly sophisticated technology has been to create more tools to try and solve them. As a result, there is a growing market of vendors offering predictive modelling software.

Jackson reveals: "We can look at using smart technologies that look at probability and profiles of individuals' past behaviours. If someone fits a certain profile there is a higher probability they will be a fraudster." However, he adds a note of caution: "It's an interesting area but also dangerous."

Gordon Rasbach, Vice President, Legal & Fraud Management, Aviva Canada Inc and Global Fraud Management Leader for Aviva General Insurance is even more reserved about predictive technologies' current capabilities: "There are too many vendor-led technologies out there that claim to be able to predict events such as claims losses. From a pure business point of view, these have not been realised, they're overstated."

That said, it is far from the end of the road for these providers: "Research and development into these tools should continue advancing. We're years away from getting it to the point where you can rely on them," Rasbach states. Instead, he insists the industry should be pointing its data and technological resources at intelligence defence - using data to map people, vehicles and locations to fraud and then reusing that data both when events occur and across new business.

At the point of onboarding, the quotation stage, executives interviewed for this paper agree that there is only a minimal amount that can be done in terms of identifying fraudsters with no previous history. With predictive technologies in their infancy and a need to deliver quotes in a matter of seconds, there is limited opportunity to parse applications out for further investigation.

"It doesn't help in today's technological world that speed is required to satisfy demand and expectation. There is limited checking and validation when going through application or claims stage notification details," Pagett states.

As a result, insurers are mostly capturing quotation fraud on the second, rather than first time around. However, at the claims stage there is much more to be done and there is a strong reliance on very advanced technologies - people. "It's down to call handlers receiving claims calls to go through scripted claims forms. We have them trained in conversational management and give them an awareness to ask the right question at the right time, challenging what needs to be challenged," Pagett says.

Rasbach agrees that a focus on people skills is imperative if insurers are to win the fraud fight. "The challenge most insurers are having is that they are committing technology resources to try to identify fraud but not matching what should be done with people's capabilities. Staff who are confined to a desk, who are naturally inclined to pamper good customers don't have the opportunity to get out and meet other people, who don't have investigative experience will wind up with all these lists of potential fraud which just aren't meaningful."

In terms of inflated claims or fudging blame, opportunistic fraud is a great temptation to the customer, resentful of years of paying premiums. Pagett notes that skilled claims handlers are vital when it comes to getting to the truth of the matter.

Data-driven decisions

Underpinning the whole fraud infrastructure is data. But more importantly, it is customer insight that delivers the difference between knowing there is a possibility fraudsters are exploiting the system and knowing who the fraudsters might be.

As Rasbach has already noted, even with detailed information predictive technologies are not ready to accurately identify potential perpetrators yet. However intelligent insights into customer behaviour and history allow claims handlers to make informed decisions about how and where to probe more deeply.

The challenge for insurers at the claim stage is similar to that at quotation and renewal. Data allow insurers to act quickly and efficiently, and in this sector and others, customers have come to expect near immediate decisions. Their customer experience suffers if they there is a delay - one which is expressed in minutes, not hours. With quotation and claim being the two major moments of truth for brands in a highly commoditised and competitive marketplace, insurers are anxious to make the processes as smooth as possible. If they are to disrupt that journey, there had better be a very good reason.

"There are three buckets of insurance customers. One that should be pampered [good risks] and one that shouldn't [bad or known fraudulent prospects] and there is a giant bucket in the middle where you just don't know. If data is to truly separate those buckets, the segmenting better be right because there will actually be many more people in the bucket that need pampering rather than be checked out," Rasbach explains, reiterating that the tools to do that segmentation just don't exist yet.

What is available is the ability to use third party data to enhance customer insight. For example, Pagett notes that Ageas is able to use information such as credit reference data and other sources to provide indicators for the claims handler to take a closer look at; such as, the effect of financial pressure on the behaviour of an otherwise honest customer.

Clearly, the insurance industry has a great deal of its own data and there is a growing demand for the Insurance Fraud Register (IFR) to increase its scope. "The key to mitigating risk and underwriting the best risks is getting the best insight about the customer. The more details you can gain about the individual, the better prepared you are. We need to gain more knowledge about the individual and their history," Pagett states.

The industry has white databases it can interact with: the Claims and Underwriting Exchange (CUE) database for home, motor and personal injury (PI), the motor insurance database (MID) data - which every insurance company should be using. Issues arise when it comes to black or grey data such as that contained in the IFR. Pagett argues this sort of data is vital for the market but is nowhere near effective enough yet:

"Membership of the IFR has been open to Insurers for the last couple of years but the industry has yet to fully engage, with only 38% (by market share) participating. It's not adding as much value to fraud detection as we'd like. It is a data source that insurers should be embracing and deploying across the full policy lifecycle. It's taking longer than hoped for each insurer to agree the rules and demonstrate that they can comply, Pagett states, warning that until the information contained in the IFR becomes a compelling deterrent, customers will still take their chances with fraud.

Conclusion

Data will continue to be a key battleground for insurers in the fight against fraud on the front line. The development of technologies that can marry high speed application data with existing databases and predictive modelling is tantalising but not sophisticated enough yet to be deployed accurately.

If comfortable is not the word, it would appear that insurers are relatively resigned to the levels of fraud at the point of quote. The risks of a deteriorating customer experience driving the vast majority of good customers into the arms of competitors outweighs the costs from a much smaller proportion of bad apples.

That said, insurers are concerned that their third party partners should work with them using existing tools to mitigate wherever possible, while simultaneously attempting to drive home the concept that quality business equates to long term profitable relationships, insurance executives are coming up with strategies to support the broker network.

"For intermediated business, it depends on the intervention of software houses," Jackson suggests. "So that the adequate validation is done in that environment where it is detached from the insurer. There is much talk about how we can establish a system where the broker can communicate directly with the insurer. Instead of the software house being an obstacle, it should be a channel in. The technology exists in terms of speed and capacity. There is a cost attached but in the end it would create closer links to work in partnership. I expect this to happen in the next year or two."

Aviva's Rasbach also has a two year window in mind: "In the next two to three years insurers need to give themselves a reality check on claim fraud prediction and point more to consolidating the data, building its integrity so it points to behaviours and then sharing the data between insurers. The competitive advantage comes from how much an individual company is willing to invest in their data."

Covéa Insurance's Jackson questions how willing insurers will be to share valuable customer data but with Pagett highlighting the need for much greater involvement with the IFB, a degree of industry collaboration looks set to be at least part of the solution.

Pagett notes that a push is needed with grey data, where fraudulent activity is suspected but it's difficult to prove. He highlights the IFB's work towards a '20/20' strategy (which includes enhanced data capture) that will provide greater insight in this area.

"The key part is reducing the opportunity to misrepresent the claims to insurers. We need to educate the customer about the challenges we face and the consequences of attempting to defraud. We need to prosecute fraud and act on the consequences of convictions while building trust with good customers. We need to give insight to the front line and use the data available," he insists.

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2nd Annual Insurance Fraud Europe Sumit
Conference and Networking Event
30th June – 1st July

You can find the contributors of this whitepaper – and more – at FC Business Intelligence's 2nd **Annual Insurance Fraud Europe Summit**, on the 30th June – 1st July in London. Insurance Fraud Europe is the only event to offer truly practical solutions and innovative new approaches for combatting fraud.

This industry leading event brings together over 30 leading speakers and 150 delegates from insurance carriers across Europe. Over the two day summit, we'll connect expertise from across: General, Commercial, Life and Health insurance, and deliver the practical insights you need to create winning counter-fraud strategies.