



Deloitte Forensic
Protecting your business in the
Insurance sector



Introduction



The insurance industry in India has seen myriad changes over the past decade. The increase in the number of players, different modes of distribution, regulatory changes, technological improvements together with rising income levels, have all contributed to the growth of the insurance industry. Considering current low insurance penetration levels, the growing population base, rising purchasing power, increased insurance awareness, increased domestic savings and rising financial literacy; the growth potential for the insurance sector remains promising. With the entry of multiple private players in the market, insurance companies are trying to differentiate themselves by offering innovative products, fast and streamlined claims processing and multiple distribution channels.

However, the inherent nature of the industry, the decrease in the ethical quotient across society, the retail character of its customers, the lack of availability of data/ information, and unhealthy focus on numbers has exposed the insurance sector to fraud and misconduct of various types. With estimated losses to customers on account of mis-selling life insurance policies in India amounting to a whopping sum of approx. INR 1.5trillion / \$28 billion¹, restates the fact that the occurrence of fraud can result in grave financial losses, possible regulatory action as well as reputational damage.

How can we help?

On the basis of extensive industry experience, deep domain knowledge, latest tools and technology and innovative solutions at hand, Deloitte Forensic helps its insurance clients protect their business from commercial losses and reputational damage resulting from fraud, misconduct and non-compliance.

¹ Source: Study published by Indira Gandhi Institute of Development Research, Mumbai on April 2013 (Loss estimated for the period from 2004-05 to 2011-12)

Investigation and Data Analytics

Fraud and misconduct investigation

Given the inherent nature of the industry i.e. the presence of different parties in a transaction (customer, agent, broker, surveyors, assessors, etc.) and the complex nature of transaction processing in insurance makes the insurance sector particularly vulnerable to fraud. Given the evolving nature of the industry in India, the lack of availability of data, absence of specific laws/ regulations aimed at insurance fraud and overt dependence on third parties for business, the situation for Indian insurance companies gets further exacerbated from a fraud management perspective.

During the numerous investigations that we have conducted in the areas of claims/ surrender fraud, mis-selling, KYC/ AML breaches, commission rebating, forged documentation, employee misdemeanors and collusion between different parties, our focal points were to identify if the suspected fraud took place, the modus operandi adopted, the loss estimated and affix responsibility for the incident. Our team of forensic accountants, former law enforcement officers and computer forensics experts have extensive experience in laying down procedures to collect and preserve evidence in a legally admissible manner. We can also assist our clients in laying down the protocol to be followed in notifying external agencies like law enforcement agencies and follow-up procedures, if any.

Fraud loss management

It is said that the most optimum way to deal with fraud is to prevent it. A robust internal control mechanism can go a long way in significantly reducing the risk of financial crimes and resultant financial and reputational loss. The Deloitte Forensic team can help your organisation design, implement and evaluate the anti-fraud programmes and controls to prevent, detect and respond to fraud and misconduct in a timely and appropriate manner.

Our team has in-depth experience in conducting a fraud assessment exercise across different functions ranging from claims management to sales and distribution/ sourcing to investment management. We can also help identify specific fraud risks that affect each department/ function and recommend measures that can help put in place an early warning detection system against fraud. Additionally, we can assist your organisation in

educating your employees through our fraud awareness workshops.

Setting up a fraud management structure

Based on the guidelines issued by the regulator as well as the level of maturity of the industry, insurance companies are moving towards setting up dedicated special investigation units (SIU). We support our clients in setting up the SIUs including developing the team charter, training company resources on investigations, preparing an incident response plan, preparing a communication plan and loan staffing of our personnel to the SIU. We assist our clients in developing a code of conduct with a clear implementation program as well as help them set up an independent whistle blower framework. We also support our clients in updating/ creating a comprehensive anti-fraud framework, building on their existing fraud management policies and incorporating leading global industry practices.

Investigation of insurance claims

Claims fraud is one of the biggest fraud risks facing insurance companies. Claims fraud is typically of three types – a fraudulent claim for an incident which never took place or a claim for an incident that took place but was staged or inflation of claims for an incident that did take place. More often than not, claims fraud is carried out with the involvement of any or all of surveyors, intermediaries, customers and employees. Many a time, investigation of a fraudulent claim involves carrying out a detailed investigation on the ground to confirm facts, check for evidence, identify the modus operandi and fix responsibility. The Deloitte Forensic team comprising of former law enforcement officers can help your organisation conduct field investigations to make enquiries, collect evidence of fraud, if any, and affix responsibility, if possible, in claims raised by policy holders.

Investigation of dealing room frauds

Globally, insurance companies are one of the largest asset managers on account of the large volume of funds that they manage. In India as well, as the insurance industry is maturing, this trend will emerge in the future. This trend is already partially visible in the life insurance side in terms of the assets under management of some of the large life insurance players. However, this raises the risk of dealing room frauds which involves taking advantage of confidential information and trying to

benefit from it. This can manifest itself in different forms like front running, insider trading, price manipulation and other forms of market abuse. The Deloitte Forensic team is the only forensic practice nationally to have deep domain knowledge and experience of conducting complex investigations in the dealing room space; as well as knowledge of working closely with some key regulators. In investigations in this area, we have helped our clients to identify the modus operandi, fix responsibility as well as quantify the potential loss to the policy holders.

Fraud Analytics

With the vast volume of transactions that are processed every year, it is not practical to manually review every single transaction for suspicious activity. This remains one of the biggest hurdles in detecting fraud in an insurance company. We have a dedicated analytics team to undertake analysis of vast client data and unearth suspicious trends. With the help of different tools and techniques available along with the insurance domain knowledge that we possess, we can help your organisation conduct fraud analysis to identify underlying trends relating to customers, surveyors and others involved in the insurance claim process. Based on the trends and patterns that emerge from the analytics exercise, we are able to help your organisation implement a rule-based engine that will help identify high risk transactions on a priority basis.

Data theft: Detection and prevention

In today's world, data remains one of the highest valued resources. During the course of its business, an insurance company gathers and deals with significant amount of sensitive information right from customer information to transaction/ financial information. Leakage of such information could result in financial and reputation loss for your organisation. We can help set up strong countermeasures and defensive systems to protect an organisation's critical infrastructure and information. These countermeasures will include aspects related to physical access controls as well as software measures.

Mystery shopping

An insurance policy is a reasonably technical and complex product to a layman. This is more so in an underinsured country like India. To attract customers, sales agents often state and sell facts contrary to the terms of the insurance contract. Mis-selling is one of

the key issues faced by the insurance industry and it can result in reputational damage, financial loss and compliance risk for the insurance company. Similarly, in cases, where there is a suspicion about the conduct of some intermediaries/ associates of the company, one of the key modes to gather more intelligence about this could be to carry out a mystery shopping exercise. We can help your organisation obtain specific information around the sales activity and misrepresentation, if any, by posing as a customer. As a mystery shopper, we undertake various activities such as conducting enquiries, purchasing insurance policies, raising complaints as well as providing a detailed report or feedback to the organisation about our experience.

Ethics helpline

There are typically multiple parties in an insurance transaction – agents/ intermediaries, customers, employees, surveyors, investigators, etc. As a result, it becomes very challenging to have a comprehensive fraud monitoring system which will monitor all these different entities. According to the Association for Certified Fraud Examiners (ACFE), a strong whistle blower mechanism is one of the most effective ways to detect fraud². Deloitte Tip-offs Anonymous, an independent and confidential whistleblowing facility provides callers the opportunity to raise a concern regarding an incident of wrongdoing, fraud or unethical behavior within the workplace, while maintaining anonymity.

² Source: 'Report to the Nations on Occupational Fraud and Abuse' 2014 ACFE Global Fraud Study





Business Intelligence Services

Know your customer

Misrepresentation by the policy holder is highly prevalent in the insurance sector. Taking cognizance of the fact, various mandatory Know Your Customer (KYC) guidelines have been introduced in the past couple of years. However, inspite of existing regulations, lack of appropriate KYC documentation or fraudulent documentation continue to affect the sector. The Deloitte Forensic team can help your organisation verify the credibility of information submitted by prospective customers by conducting various background checks including address check, identity check, document verification, etc.

Due diligence on high value policy holders

Business decisions made in the absence of information can result not only in financial and reputational loss but may also lead to regulatory breaches. To help your organisation avoid such adverse consequences, we can help gather intelligence from various public and non-public sources and identify potential red-flags with regard to a potential high value policy holder. This will grant your organisation access to key information and enable you to take an informed decision.

Know your vendor

Given the scale and the spread of insurance companies across the country, the dependency on having a large number of vendors is high, with a significant number of them being from non-metro locations. Hiring a vendor without obtaining adequate information about the background, history, track record of performance, emphasis placed on ethics by the prospective vendor could result in a financial loss, litigation, regulatory action and reputational damage to the organisation – in this case the insurance company. A structured due diligence mechanism can help insurance companies avoid these pitfalls. The Deloitte Forensic team can help your organisation conduct such a risk based due diligence of the entire vendor portfolio – including existing, new and potential vendors - for identification of any trends or patterns and highlight any red flags so that corrective action can be taken.

Regulatory Compliance Services

Anti-Money Laundering (AML) compliance

The insurance sector has always faced the threat of its product offerings being used to launder money. Typically, life insurance products – for example, cash surrender policies - are at a higher risk of being used to launder money and to convert black money into white. However, it has been observed that general insurance products are also vulnerable to money laundering through fraudulent claims. For insurance companies, the only way to mitigate the risk of money laundering is to implement an effective AML mechanism. The Deloitte Forensic team can help your organisation develop a robust and comprehensive AML framework to prevent, detect, and respond to money laundering risks by undertaking a review of your AML framework, identifying gaps and giving recommendations to mitigate those gaps. We can also work with your teams to identify and investigate any specific instances of KYC/ AML breaches or suspicious activities relating to specific customers, products or relating to different transactions including transfers and redemptions.

FATCA compliance

The Foreign Account Tax Compliance ACT (FATCA), a United States legislation, is aimed at preventing offshore tax abuses by US persons. Though FATCA is still evolving, it can also have an impact on insurance companies – especially on the life insurance side. While FATCA's basic foundation covers tax issues, its ambit falls into the operational side as well. To incorporate all the FATCA elements, insurance companies will be required to make changes to systems, processes, IT infrastructure and some customer handling procedures. The Deloitte Forensic team can help assess the impact of FATCA on your organisation. We can help identify the products/ solutions that will have an adverse impact on the law, and outline the changes that will be required to your business model, operating processes and application portfolio to be FATCA compliant. We can also help you develop an implementation strategy, establish the governance model and program structure and carry out the execution of the same.

Anti-Bribery and corruption compliance

In today's rapidly evolving globalized world, it is imperative to comply with national regulations as well as international laws such as the US Foreign Corrupt Practices Act (FCPA)/ UK Bribery Act (UKBA). Especially, in a developing country like India, considering prevalent corruption levels, compliance with these regulations is a challenge. Our team can help clients develop and implement robust compliance programmes to prevent, detect and respond to anti-corruption noncompliance issues. We conduct FCPA and UKBA risk assessment reviews to mitigate the risk of non-compliance with these legislations. We have significant experience in this domain across multiple settings like mergers and acquisitions, investment and integrity due diligences.



Dispute Services

In today's global business environment, corporations are faced with increasing number of litigations and complex business disputes across borders as well as within India. Disputes among business partners, competitors, shareholders can result in a multitude of actions emerging from mergers and acquisition issues, breach of contract disputes to large-scale class action suits. We support our clients and/ or their legal counsels in a dispute setting by providing powerful financial analysis and sophisticated tools in the areas of case management e-discovery, data analytics, computer forensics and document review services. Some of the services that we provide our clients are:

- Assessment of risk and damage exposure
- Performing financial analysis

- Providing Expert Opinion and Testimony at trials and in other dispute resolution forums
- Arbitrator Services – We can play any of the three roles – by playing advisor to one of the parties in arbitration; by providing an expert opinion report followed by testimony if required; and offer industry experts to act as neutrals in various types of disputes
- Deloitte Discovery and Document review services is a one-stop service provider for all legal discovery related services including litigation readiness, data collection, data filtering, processing, hosting, document review and production.

What sets us apart?

Presence and Infrastructure	Deloitte has significant geographic presence in India, with offices in 13 locations including Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi. We have a highly developed infrastructure that has more than ten years of maturity.
Expertise and Experience	We have a highly talented and globally competitive workforce, offering experience and expertise in a wide range of services. Professionals in our Forensic services practice have worked on some of the largest and most complex investigations in the insurance sector, both within India and globally.
Robust Tools, Flexibility and Scalability	Our key differentiator is the use of robust tools in all our various forensic engagements, right from preventive services like fraud risk management assessment to reactive services like investigations that results in building efficiency and effective delivery of engagements; which in turn benefits our clients with outputs substantially exceeding their expectations. We have the flexibility and scalability to quickly ramp up to support large projects at short notice. We are able to staff projects, both virtually and on-site.
Proven Global Delivery Model	Deloitte has a proven global delivery model, working seamlessly across time zones and cultures to deliver high quality work on time. Depending on engagement requirements, we adjust our timetables to meet client requirements.
Technology	Deloitte operates one of the largest electronic discovery labs in Asia (and the largest in India), utilizing advanced technology to collect, process, host, and analyze electronically stored information (emails, user files, metadata, etc.) in support of forensic investigations.

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