



Cover your policy before it 'matures'
Addressing fraud risks in the
General Insurance Industry





The Indian general insurance market has grown almost four times in the last ten years from USD 3.4 billion in FY 2004 to USD 12.7 billion in FY 2013. The number of policies have almost doubled from 43.6 million in FY 2003 to 85.7 million in FY 2012¹. But at the same time, the overall claims ratio has also remained high at nearly 89 percent in FY 2012² – a clear indication that the sector has its fair share of problems.

Factors such as 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.

Some of the key challenges faced by general insurance companies while trying to mitigate the risk of fraud is the increased dependence on numerous third parties, finding the right balance between automation of systems and manual intervention in underwriting and claims processing; and decentralization v/s centralization with regard to defining the powers of the regional offices.

1. Are fake cover notes an area of concern for you?
2. Have you seen a trend of high number of theft claims for SUVs?
3. Do you have an enhanced due diligence process for high risk claims like break-in claims and close proximity claims?
4. Do you have any mechanism to maintain a track of high risk customers, agents or service providers?
5. Is there a possibility that you could have made double payments for the same loss?
6. Are your controls robust enough to detect duplicate bills in multiple claims?
7. Do you have any mechanism to mitigate the risk emerging due to premiums received through third party cheques?
8. Are you aware of any concentration risk with regard to the use of third parties – be it agents, surveyors or investigators?
9. Are you cognizant of conflict of interest cases involving relationships between employees and third parties that might exist in your organization?
10. Are you witnessing a diversion of your directly sourced business to other channels leading to commission leakage?
11. Do you think your claims approval controls at the Regional office(s) are robust enough?
12. Have you seen fire claims which seem too perfect to be true?
13. Are a large number of your (paid out) health claims classified under the head of “Others/ Miscellaneous expenses”?
14. Is there a robust due diligence process in place at the time of empanelment of service providers like surveyors, agents, garages, hospitals, etc?

1 Source: www.ibef.org
Insurance August-2013 issue
2 Source: Handbook 2011-12
by IRDA

Some of the challenges faced Deloitte can help

1 Mitigating frauds

- Issuing fake cover notes and pocketing the premium or issuing cover notes to a vehicle after it has met with an accident or to one which has caused third party death/ injury
- Particular types of vehicles – like SUVs – being the target of an organized theft syndicate
- Claims fraud by inflating expenses, staging accidents, multiple claims being lodged, collusion between any two or all the third parties (like surveyors, agents, garages and hospitals), customers and employees, identity theft especially in case of health insurance, etc.

How can Deloitte Help

- Carry out a detailed fraud investigation in order to understand the modus operandi, affix responsibility and estimate the damage
- Implement a customized fraud loss management exercise to strengthen controls so that the same frauds do not happen again
- Providing support in institutionalizing an independent whistle blower mechanism to identify fraud

2 Lack of proactive and robust monitoring framework

- Conflict of interest issues like employees/ agents have close relationships with other entities auxiliary to the company like surveyors, agents, hospitals, medical centres and dealers
- Lack of appropriate oversight and monitoring at the regional office(s)
- Enhanced due diligence not in place for claims relating to break-in policies or other high risk claims
- Incidents of higher claims from a particular garage/ workshop or from a combination of such locations or any other third party
- Lack of robust due diligence procedures resulting in the on-boarding of inappropriate employees, agents or third parties

How can Deloitte Help

- Support in institutionalizing a comprehensive fraud analytics solution which will look at aspects like conflict of interest and other red flags on a proactive basis. The analytics solution will run queries at a fixed frequency and the red flags generated will be escalated to the appropriate authorities.
- Suggest appropriate system and process controls that could be introduced to monitor areas like high risk claims
- Providing support in establishing a comprehensive and robust risk based due diligence process to identify any trends or patterns and highlight any red flags so that corrective action can be taken

3 Vulnerabilities in the control structure

- Double payment for the same claim especially in case of small amounts
- Too much reliance on manual controls or ineffective or inadequately designed system controls
- Diversion of direct business to other channels – especially the agency channel - to claim the commission
- Concentration of the use of a particular intermediary/ third party in a region/ location
- Process followed by certain distribution channels is not of the same rigor and diligence as mandated by the company

How can Deloitte Help

- Support the creation and implementation of a comprehensive anti-fraud policy in line with the regulatory requirement; and design and implement an anti-fraud training program to help foster an anti-fraud culture in the company
- Provide support in creating an independent fraud management eco-system which will also involve creation and periodic updation of policies/ procedures to enhance the control framework
- Carry out a mystery shopping exercise to collect intelligence and give valuable 'on the ground' feedback to the client

4 Lack of appropriate skill enhancement programs for staff – especially in the fraud management domain

- Errors of omissions especially related to review of documents like KYC documents, invoices, surveyor documents, etc. by the claims/ operations teams
- Discipline issues especially related to aspects like categorizing expenses/ claims into 'others' or 'miscellaneous' which does not provide a correct picture

How can Deloitte Help

- Conceptualization and delivery of training programs on fraud identification and mitigation for key functions like branch operations, claims and sourcing. This will also involve development of customized content for the training program.
- Loan staffing arrangements so as to augment your teams both from a skill and expertise perspective

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