

## Insurance fraud framework



The insurance industry is still in an evolutionary phase and so is the fraud management framework across insurance companies, which is a work in progress. In light of that, the Insurance Regulatory and Development Authority (IRDA) has been taking steps to address the fraud risks being faced by the insurance industry. One such measure is the circular issued by the IRDA in January 2013 which requires insurance companies to set up a Risk Management Committee as well as lay down a company-wide comprehensive fraud monitoring framework. The main fulcrum of the fraud monitoring framework is to have in place an anti-fraud policy duly approved by their respective Boards, including aspects involving the prevention of fraud, detection of fraud and an incidence response mechanism.

The key aspects of the anti-fraud policy are as follows –



### How will the fraud come to light ?

A robust fraud detection mechanism is a critical part of any organization's anti-fraud framework as it helps to identify and stop new or historical fraud at the earliest opportunity. Fraud detection usually includes a combination of factors – proactive (risk assessment) and reactive (whistleblower allegation); manual (spot audits) as well as automated (specialist fraud analytics solution).

- Our technology based and fraud analytics driven claims management solution is aimed at identifying high risk claim cases right at the time of claim notification – especially in the case of non-life insurance companies.
- For the investment management/treasury management function, we undertake a comprehensive review of this area along with a significant level of testing to identify fraudulent trends/patterns.
- We assist our clients in building specialist fraud control teams - depending on the context and the size/scale of the client, the team is formed either as a part of the larger risk/internal audit function or even as a stand-alone fraud control team.
- We support our clients in setting up a robust whistle blower framework that will help in possible fraud detection

### What will be your response to fraud?

Post the detection of a fraud, it is critical to have a robust incident response plan in place. Incident response is a broad term which encompasses investigation, collection and preservation of evidence, notifying external agencies, if required, and the assessment of loss, if any.

- 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
- Ability to support our clients in the development of the protocol to be followed in notifying external agencies like law enforcement agencies and follow-up procedures, if any

### What do I need to do to report the fraud?

Once a fraud has been investigated, it is important to relay the communication about the incident, the people responsible and the punitive measures taken to the external and/or internal audience.

- We can help our clients in introducing institutional measures to support intra-company as well as inter-company knowledge transfer to ensure cross-pollination of learnings.
- Develop customized Management Information System (MIS) solutions for our clients which includes the development of a fraud MIS covering areas such as exception reports and fraud management dashboards as well as a regulatory reporting framework
- Assist our clients in the development of an action plan to ensure that targeted communication programmes are rolled out across key stakeholders.

### How can I prevent fraud?

It is said that the most optimum way to deal with fraud is to prevent it. 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 as well as being able to 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.

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- Support the client in developing a customized fraud prevention approach for each department/function – For example, a process and technology based continuous monitoring solution for investment management/treasury function; a mystery shopping supported process enhancement for sourcing; and a process improvement based solution for underwriting.
- Help our clients create/update a comprehensive anti-fraud policy building on their existing fraud management framework and policies of the company and incorporating leading global industry practices.
- Support our clients in conducting US foreign corrupt practices act (FCPA)/the UK Bribery Act (UKBA) risk assessment reviews to mitigate the risk of non-compliance with these legislations

At the end of the day, fraud prevention and detection in an industry like insurance is not the responsibility of the risk team or that of internal audit but it is a part of the overall corporate risk management strategy. For a comprehensive fraud management framework to work successfully there has to be an appropriate blend of the right policies and procedures, appropriate preventive and monitoring structures, robust fraud detection and response mechanism supported by an appropriate communication strategy.

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