

## Secure your policy before it is too late

# Addressing fraud risks in the Life Insurance Industry



The Indian life insurance market has grown almost four times in the last ten years in terms of premium collected from USD 11.5 billion in FY 2003 to USD 59.9 billion in FY 2012<sup>1</sup>. Life insurance density expanded from USD11.7 in 2002 to USD49.0 in 2011 at a CAGR of 17.2 per cent. But at the same time, estimated losses to customers on account of mis-selling of life insurance products amounted to a whopping USD 28 billion/ INR 1.5 trillion over the 2004-05 to 2011-12<sup>2</sup> period - a clear indication that the sector has its fair share of problems.

Factors such as the inherent nature of the industry, the aggressive selling strategies employed, the complex nature of the products, the retail character of its

customers, the lack of availability of data/ information, and unhealthy focus on numbers has exposed the life insurance sector to fraud and misconduct of various types.

Some of the key challenges faced by life insurance companies while trying to mitigate the risk of fraud is the increased dependence on the branch network for sales, presence of numerous third parties in carrying out an insurance transaction, finding the right balance between automation of systems and manual intervention, putting in place a robust underwriting given the different touch points with the customer and decentralization v/s centralization with regard to defining the powers of the branches.

1 Source: [www.irda.gov.in](http://www.irda.gov.in) (Annual Report 2011-12)  
2 Source: [www.igidr.ac.in](http://www.igidr.ac.in) Working Paper on estimating losses to customers on account of mis-selling life insurance policies in India

1. Have you seen a trend in surrenders from a particular channel / corporate agent?
2. Do you have an enhanced due diligence process for high risk claims like first year death claims, death claims in the event of a death in suspicious circumstances?
3. Do you have any mechanism to maintain a track of high risk customers, agents or service providers/vendors?
4. Do you have a robust control mechanism with regard to third party payments?
5. Do you have an effective monitoring framework with regard to fraud risks in the investment management domain?
6. Are you confident of the control framework in place with regard to acceptance of cash for insurance premium payments?
7. Are you comfortable with the KYC/AML procedures in place, especially with regard to online policies?
8. Are the branch personnel appropriately trained so as to be able to function as the first line of defence against fraud?
9. Is there a risk of concentration with regard to the use of third parties/ service providers like agents, hospitals, investigators, vendors, etc.?
10. Are you cognizant of conflict of interest cases involving relationships between employees and third parties that might exist in your organization?
11. Are you witnessing a diversion of your directly sourced business to other channels leading to commission leakage?
12. Do you think renewal premiums are being routed as new business thereby affecting persistency as well as leading to commission leakage?
13. Are there adequate controls in place with regard to data security – especially in relation to customer data?
14. Is there a robust due diligence process in place at the time of empanelment of service providers/ vendors?



# Some of the challenges faced Deloitte can help

## 1 Mitigating frauds

- Issuing fake receipts for the premiums paid in cash by the customers to agents
- Policy issued without complete disclosure on part of the agent w.r.t. the life assured's health status
- Mis-selling of insurance products
- Customers – like non HNI retail & premium paying – who have completed the lock-in period of their policies, being a target of an organized syndicate (corporate agents, channel partners) for closing the existing policy and buying a new plan
- Death claim frauds through impersonation, staging death, death in suspicious circumstances like fire, missing, accidents, collusion between third parties (like agents, police, hospitals and doctors)

### How can Deloitte Help

- Carry out a detailed fraud investigation using different tools and techniques – including data/ documentation review, computer forensics, market intelligence, open discussions with the identified personnel, etc. - 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 and/ or new 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 having a close relationship with other entities auxiliary to the company like claims investigators, vendors, medical centers and agent training institutes
- Lack of appropriate oversight and monitoring at the branches
- Enhanced due diligence not in place for high risk claims like first year death claims
- Incidents of high number of surrenders / death claims from a particular agent / corporate agent
- 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

- Leakage in commission payments due to an ineffective commission claw back mechanism
- 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 agent/ corporate agent, third party in a region/ location
- Process followed in 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, vendor quotations, etc. by the underwriting/ operations and claim teams
- Inability of the staff to identify trends/ patterns which might indicate a fraudulent behavior

### 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

# Contact us



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