

**TECHNIQUES FOR MANAGING
FRAUDULENT AND EXAGGERATED CLAIMS**



At The

**ADVANCED CLAIMS CONTROL &
MANAGEMENT COURSE**

Organised by

INVESTRAD CONSULTING

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1. INTRODUCTION

DEFINITIONS

- **Fraud is a deliberate deception for unfair or unlawful gain**
- **Exaggeration is to enlarge, increase or represent (something) beyond normal bounds**
- **Technique is the systematic procedure by which a complex or scientific task is accomplished**
- **Managing is to direct, control or handle.**

INSURANCE CONTEXT

- **In technical terms, any claim that fails to satisfy the authenticity test is adjudged as a fraud**
- **Once estimate of claim is inflated, exaggeration has taken place**
- **All insurance companies have functional unit or department to oversee the claims process**
- **Most companies recognise the need to manage the the affairs of their claims function**

2. ESSENTIALS IN INSURANCE

Why Pay Claims?

- The law requires it
- Hence it is the primary obligation of all insurance companies
- Used as a selling point by most companies
- The best form of advertisement
- To enhance the image of insurance industry

Guiding Principles

- Utmost good faith
- Insurable Interest
- Proximate Cause
- Indemnity
- Subrogation
- As custodian of policyholders' fund, exercise role in accordance with sound principles

3. THE CLAIM PROCESS

On The insured's Part

- **Notify the insurer of loss as prescribed by policy**
- **Notify police authorities (where appropriate)**
- **Furnish particulars and proof of loss**
- **Take steps to minimise extent of loss**
- **Cooperate with insurers for recovery and prosecution**
- **Obtain Settlement**

On The Insurer's Part

- **Establish validity of cover**
- **Investigate genuineness of claim**
- **Determine the quantum of the claim**
- **Communicate Offer**
- **Discharge obligation**

4. CHARACTERISTICS OF FRAUD AND EXAGGERATION

Agents Provocateur

- **Unscrupulous policyholders**
- **Insurance Agents**
- **Insurance Brokers**
- **Staff of insurance company**
- **Loss Investigator/Adjuster**

Common Areas of Occurrence

- **Property Insurance**
- **Motor Insurance**
- **Personal Accident Insurance**
- **Money Insurance**
- **Fidelity Guarantee Insurance**

Features in Property Insurance:

a) Fire Insurance:

• **Arson, due to:**

- Poor sales involving large stock of obsolete goods
- Obsolete machinery and plant
- General decline in the fortune of the business

- **Inflated estimate of repairs or reinstatement of building**
- **Claim for replacement of obsolete equipment & plant**
- **Inflated claim for loss of stock**

• **b) Burglary:**

- **Organised incident**
- **Claim for non-existent goods**
- **Inflated estimate of loss/damage**

Features in Motor Insurance:

- **Insurance of non-existent vehicle**
- **Arrangement of multiple cover for same vehicle with different insurers**
- **Contrived accident**
- **Fire loss on over-insured vehicle**
- **Third Party Liability**

Features in Personal Accident Insurance:

- Insurance on life of a fictitious person
- Inflation of compensation for permanent disability
- Excessive leave of absence from work after injury
- Inflation of medical expenses

Features in Marine Insurance:

- Syndicate across continents
- Arrangement of cover with fake documents
- Arrangement of dual cover i.e. foreign/local
- Manipulation of charter party arrangement

Features in Money Insurance:

- Organised robbery operation
- Inflation of quantum of claim
- Manipulation or alteration of records

Features in Fidelity Guarantee Insurance:

- Framing of trading loss as embezzlement
- Concealment of recovered portion of embezzled fund
- Non-disclosure of right entitlements of defaulting member of staff.

5. THE TECHNIQUES OF MANAGING

Why Manage?

- It constitutes a great challenge to the stability and survival of insurance companies
- The act is against public policy
- Undermines professionalism
- There is moral obligation on the part of insurers to ensure protection of policyholders' funds
- The British insurance industry alone lost US\$600 million in 1994
- The sophistication and ingenuity employed by fraudsters increase by the day
- To protect the image of the insurance industry

The Techniques... (Contd.)

Noticeable trends:

- **Forgery**
- **Collusion**
- **Exaggeration**

Dealing with Forgery:

- **Thorough cross-checking of substantiating documents**
- **Liaising with different channels such as:**
 - Port Authority
 - Bank
 - Hospital
 - Custom & Excise Department
 - Local Government Office
 - Licensing Office

Dealing with Collusion:

- **Subject all cases to SOP irrespective of status of the claimant**
- **Implement sound recruitment process**
- **Subject ancillary reports from independent agents to close scrutiny**
- **Maintenance of security list on business associates**

The Techniques... (Contd.)

Dealing with Exaggeration:

- Remember principle of indemnity
- Regular conduct of price surveys
- Engage credible and competent automobile engineers and loss adjusters

Supportive Considerations:

- Circumstantial evidence admissible in law i.e. *Aswani Textile Mills v. REAN & Other (10)*
- Managing data exchange via information technology
- Motor Insurance Anti-Fraud and Theft Register (MIAFTR)- British market (1987)
- Claims and Underwriting Exchange (CUE) for Household Insurance Market-UK market (1994)
- Training and Development

6. SUMMARY

- **Understanding the problems**
- **Relevance to insurance business**
- **Essence of claim payment**
- **Impact of various principles on problems**
- **Duties of both parties in insurance contracts**
- **Identifying dramatis personae**
- **Digging into common areas of problems**
- **Proffering ameliorating views**