INDUSTRY EXPERTS DISCUSS FRAUD, NEW TECHNOLOGIES AND WHERE THE INSURANCE INDUSTRY GOES FROM HERE

INSURANCE FRAUD ANALYTICS

I nsurance fraud is on the rise, especially in Canada, and it's affecting your business. In Ontario, Canada's largest automobile market, insurance costs are increasing and there is anecdotal evidence that this may be in part due to an increase in organized criminal fraud. In response, the auto insurance and benefits model has been reformed and the Ontario Anti-Fraud Task Force has been created. But do those measures go far enough? What else can insurance organizations do? With the advent of new technologies, the insurance industry has an opportunity to re-examine existing fraud detection and prevention business models and solutions.

A roundtable conducted by *Canadian Insurance Top Broker* and technology provider IBM Canada Ltd. brought together insurance industry experts who engaged in a lively discussion about what is required to help combat fraud and how technology fits into the overall scheme of fraud detection and prevention.
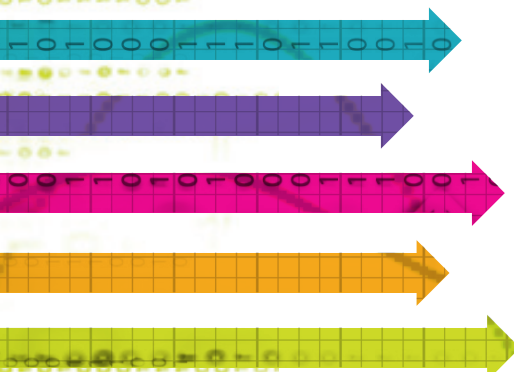
REGULATORY CHANGES AND INDUSTRY EVOLUTION

The roundtable experts agreed that regulatory changes to the existing system were indeed helpful in drawing attention to the problem of insurance fraud. The reforms that came into effect in September 2010 gave consumers more options to purchase the right level of insurance coverage. This alleviated the impact on insurers due to rising medical treatment costs, stabilized prices and continued to

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provide appropriate protection for consumers. But will it deter fraud?

"The 2010 reforms will raise new awareness," said Stephen Turner, national claims special investigator with RSA. "I think we are finally at the point where the government, by acknowledging that we have a problem, can take appropriate action," he said.

However, the onus is on the industry and companies to evolve with fraud. Currently, companies are struggling with lack of resources, lack of information and lack of law enforcement support. Deterring and combating fraud will require organizations to recognize that changes are needed. "In the solution, there has to be a key component to understanding that fraud changes. These guys are incredibly imaginative, and the solution has to address that," said Karin Ots, senior vice-president of injury and casualty claims with Aviva Canada Inc.

WHERE CAN COMPANIES INVEST TO DETECT AND PREVENT FRAUD?

There was a host of opinions among the roundtable participants when asked where they would like to see investment in the detection and prevention of fraud.

Sharing information and an industry approach

A recurring theme in the roundtable discussion was sharing information and using an industry approach to complement each carrier's in-house claims-handling practices. "In the UK, they are more liberal about sharing information, and our parent company there has seen huge benefits from that in terms of anti-fraud savings. The only way we're going to reduce fraud to the extent that we want is by banding together. Alone, we're not going to be able to combat organized crime that moves across different insurance companies," said Tim Guernsey, national claims director with RSA.

"If there was an environment of shared data subjected to fraud analytics, it would enable the front line to more effectively deal with the resources they currently have. Because then they know what they can fast-track and where they have to concentrate," said Rick Dubin, vice-president, investigative services with Insurance Bureau of Canada. "I think the root of what needs to be addressed is the implementation of effective fraud analytics," said Dubin.

Increasing resources and training

In addition to sharing information, dealing with the shortage of resources on different levels was another theme of the discussion. If companies invested in strategically increasing resources and how they were used, could they allocate constrained resources to the most-suspect claims files to still provide good customer service while significantly decreasing insurance fraud?

One change that could help the industry detect fraud would be the ability to pick up on it in the application stage. "Most of the policy applications are being uploaded electronically, so the data is there, it's coming in directly from our brokers," said Dan Little, privacy officer and national claims technical advisor, special investigations unit with The Economical Insurance Group. "If you could see a relationship in the data at that stage, it

YOUR INSURANCE INDUSTRY EXPERTS ROUNDTABLE

Tim Guernsey
RSA

Dan Little
The Economical Insurance Group

Karin Ots
Aviva

Rick Dubin
IBC

would be a very powerful tool as a first line of defence. In addition, training frontline claims staff becomes increasingly important. However, when the frontline staff has been trained to recognize fraud, the organization then has to have the capability to do something with the file once fraud is identified. You will need the investigative resources to handle the volume of fraud being detected."

Little identified another obstacle organizations face with frontline identification of fraud: competing priorities. "One area where front-line loss adjusters' performance is evaluated is ensuring they meet standards in excellent customer service. Because of this, fraud detection training is critical. So, if you're asking them to deliver prompt customer service, settle claims quickly and detect fraud at the same time, your organization may face some significant challenges. You have to find the right balance among all three areas," he said.

"I think training of frontline personnel is a big one," agreed Ots. "Even just some very basic medical training for the younger staff about what kinds of injuries are commonly sustained in low-speed impacts, what the normal medical course of recovery is and what the normal treatment is. That sort of training would heighten awareness and, in the absence of analytics that flag abnormal issues, it certainly helps the adjuster's gut develop," she said.

Dubin identified the number of crime analysts as a resource-shortage issue. "When the National Insurance Crime Bureau in the U.S. implemented more analytics, they increased the number of their crime analysts to address what was coming out from the analytics. For Insurance Bureau of Canada, there may be a need to increase the number of crime analysts to interpret the data and better understand what the trends are, where they're moving to and the impact. It will help the industry protect itself.

"The greatest savings for the insurer is at the initial stage when the claim is received. That's the point where they can jump in on the cases that have to be investigated further,

rather than what happens now, which is investigating when payments have already been made," said Dubin.

Guernsey felt that organizations should invest in their own special investigations units (SIUs). "In the past, we've outsourced that function quite a bit, and we need to bring more of it in-house. We feel that we need to do a lot more internal training with our staff and build that team up," he said.

Increasing demands above and beyond fraud detection are being placed on investigations teams. George Bearse, national senior investigator, commissioner of oaths, national special investigations unit, claims with Zurich Financial Services Group expanded on Guernsey's perspective from an investigations point of view. "On the commercial side, we'd also like to see detection at the front door," said Bearse. "Lately, I've found that I'm spending more time with risk management and underwriting than I ever did to better understand the risk and implement security plans for each site," said Bearse. "Instead of narrowing our range of focus, we've had to broaden it."

Having enough resources to properly stream claims was an issue that Jim Eso, vice-president, national property and casualty with Crawford & Company (Canada) Inc., identified. "I'd like to see us get better at streaming, because we've developed contractor management and vehicle repair programs to really focus on the fulfillment part of the straightforward claim. The key is knowing which ones should be put into that process versus going to a more in-depth investigation file. Outside Canada, claims at First Notice of Loss (FNOL) use software that detects initial fraud. The claims that are not suspicious go straight to fulfillment and get paid quickly because they passed the initial screening test. If the files don't pass the test, they're sent to an adjuster and get a much more thorough investigation. However, without technology, we get them all," said Eso.

Technology
Being able to share information and detect fraud early in the claims process calls for

fraud analytics and predictive modelling technology, which is being relied upon more heavily. "Technology tools are interesting," said Len Copp, president of Forensic Investigations Canada. "Our philosophy is that technology is the backbone of our business with regard to claims, investigation or risk management services. It's something that we've developed our business on," said Copp.

John Trozzo, vice-president, sales with SCM Insurance Services, concurred. "As a third-party vendor, we rely heavily on new technology to assist us to collect data, especially on the investigation side," he said.

Technology that can analyze information from quotation of new business through to delivery of claims service is available today. "Analyzing digitized information to find suspects, or indicators of anomalous claims, early, quickly and accurately in the process enables insurers to improve the effectiveness of special investigations – the group we've learned today are already constrained," said Christine Haeberlin, business development executive with IBM Canada. A greater number of suspicious claims may be identified, but using multiple approaches in the initial analysis can highlight the cases that warrant investigation and offset the expected workload increase.

Combining that initial-phase information with cross-industry data analysis and then feeding it into company systems and processes will allow specialized resources to work on the most critical cases and provide the best customer service to legitimate claims.

Rick Hoehne, global insurance leader with IBM Corp. said, "The technology to do what most people are asking for exists today, but it requires a mindset shift to begin thinking about how to apply it. This is something IBM is helping customers with.

"Educating adjusters and intake specialists is an ongoing activity. By leveraging identity insight, predictive analytics and rules, among other factors, we can uncover more fraud throughout the claims life cycle, and do it faster than even the most educated adjusters. We can analyze complete social networks, ➲

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IBM

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including aliases and partial identities in milliseconds," added Hoehne.

Even though it appears that finding more fraud would increase pressure on SIUs, it could also deter and prevent fraudsters from reporting the claim in the first place. "But, when it does get to the SIU, automation can help increase caseloads to cope with the demand," said Hoehne.

Technology can also help intake specialists recognize relationship networks and patterns. Fraudsters can be identified and deterred by comparing them to known relationship networks. For example, assume that a claimant was identified as a witness to a separate claim filed by someone involved in the current claim. If that information is provided in real time to the adjuster, the adjuster could then alert the current claimant that he is aware of the relationship. This could prevent the fraudster from reporting the claim at all.

WHAT IS EXPECTED OF TECHNOLOGY SOLUTIONS FOR FIGHTING FRAUD?

With technology playing such an important role in the ability to detect fraud early in the process, prediction and anomaly detection were viewed as important capabilities expected of technology. "I would rather see it right at the beginning, so that we can shut that claim down sooner – in one month instead of nine months," said Guernsey.

Data management and integration were also reiterated as a main concern. "We struggle with the data management and integration all the time," said Eso. "We're working for multiple carriers with different data requirements, different systems and different mandatory fields. Focusing just on the fraud issues, having a consistent set of expectations from carriers right from FNOL at the adjuster level would be a big benefit," he said.

Visualization was identified as a tactic that could provide greater direction in terms of the course to take with a file. "When a claim comes into the SIU, I need something that gets to the point right away, that tells me exactly what it's hitting on, why it's hitting

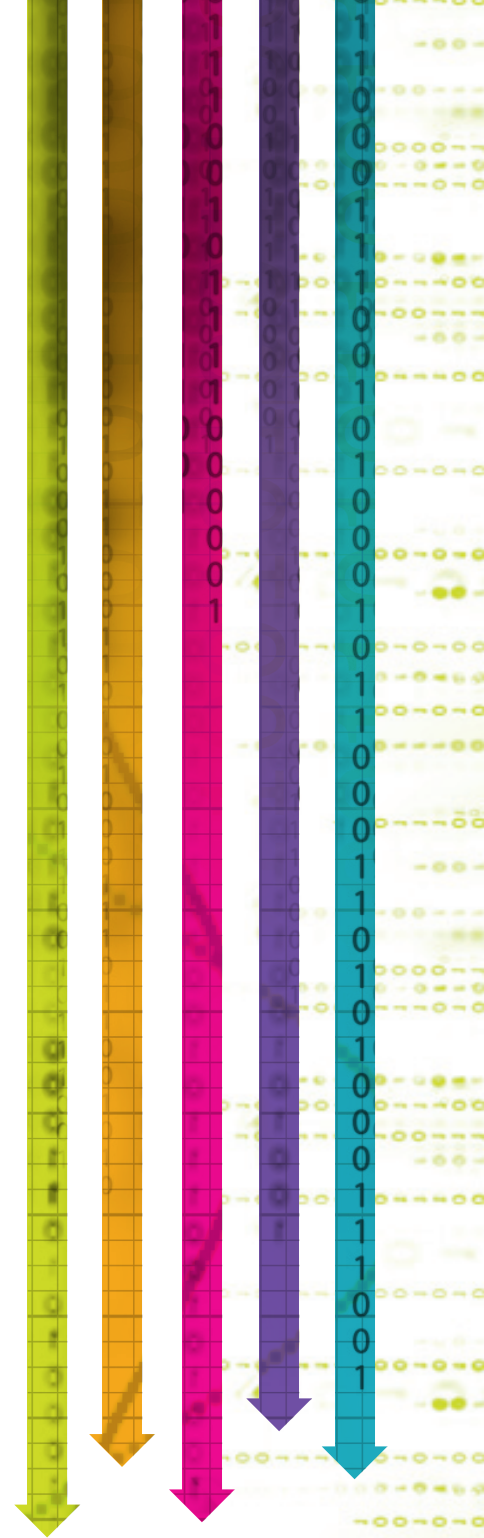on it, and then I automatically know what I need to do," said Turner.

However, the power of visualization can extend beyond individual cases. "I think there's something in visualization that goes beyond just the case by case. It's the 'how do I see what's happening in this body of cases, and how do I process it so I can take it back to my current business process and change my business process?' And evolve it that way," said Ots.

According to Turner, the UK is ahead of us on that score. "In the UK, they actually have analysts who do that. They don't look at the specific case, they look at what's happening to the organization. They look at where they are getting hit and what business practices are allowing these things to hit them," said Turner.

In this day of advanced technology that is available to the masses, social media analytics are becoming an important cog in the machine. However, organizations may not have full access to proper investigative techniques. Turner cited examples of restrictions that are placed on IT bandwidth and company infrastructure that do not allow access to Facebook. "I'd like to be able to go to Facebook in the same way we go to the CROMS database to look for the accident information from a Collision Reporting Centre or we go to the IBC database to look for previous claims information. It would also be helpful to access a database where you just punch in some basic information or that's just working in the background as another layer on the analytical software," said Turner.

As the roundtable concluded, it was evident that there are technological innovations that can help the insurance industry to evolve and better combat fraud. Understanding how fraud affects business, sharing data in an industry approach and investing in human resources are only the start to better positioning insurance organizations to serve their companies, employees and policyholders.

Technology's ability to not only catch but outmanoeuvre fraudsters was a prospect panel participants were keen to investigate. ■