

MANAGEMENT OF LEAKAGES AND FRAUDS IN GENERAL INSURANCE CLAIMS

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In the emerging Insurance scenario in India, pricing and claim servicing will decide where an Insurance Company stands. In fact, in the days to come, claim cost will have a direct bearing on the pricing. Leakages and frauds on account of claim / underwriting will adversely affect the claim experience which in turn will affect the pricing. Because of the misdeeds of a few and because of the lack of effective control by the insurance company, the genuine customers who constitute the majority will have to pay higher prices for insurance products than is actually warranted. In an open market with lot many option available the consequence are very obvious. Not only because of higher prices it will deter new customer to come - even existing client base will start dwindling. It is therefore essential for their own survival that insurance companies formulate a claim management philosophy where concern on account of leakages & frauds are taken care of properly. A transparent claims management policy in fact can be a good market strategy also.

As long as there has been insurance, there have been insurance frauds. Let's accept the fact that the leakages and frauds can not be eliminated altogether. But let's also accept the fact that they can be managed, controlled and kept within a limit.

In common parlance fraud is associated with dishonesty, breach of trust, criminal deception, misappropriation, etc. However, "fraud" is not defined in I.P.C. But we can say that "Whenever there is intention to deceive and by means of deceit to obtain an advantage there is fraud." If we extend this concept to insurance, then any act aimed at making profit from an insurance contract constitute

“Insurance fraud.” e.g. Non-disclosure of material fact with the intention of

- Getting reduced insurance premium - rate
- Getting claim settled which otherwise would not have been possible.

Of late there have been spurt in insurance related frauds and this can not be viewed in isolation as this also reflects on the shortcomings in the society we live in and partly explains the spurt. Economic disparity, unemployment falling moral values, materialism, etc. in their own way give rise to white collar crime in society. The other reasons are -

- **High reward – low risk proposition:** There is no penal provision in IPC to deal effectively with insurance related frauds / leakages and hence it is very difficult to book a culprit. This being the position and there being no strong, effective deterrent, unscrupulous persons see nothing risky in taking a chance. They have nothing to loose but everything to gain.
- **Public attitude – Victimless crime :** Insurance fraud / leakages generally do not in any way directly affect the public at large. The common perception is that Insurance Companies have deep pockets. Hence the society and / or individuals do not react to the insurance fraud / leakages in the same way as they do on matter that are of concern to them.
- **Low law enforcement priority:** The law enforcement agencies are too pre-occupied with other more pressing and urgent matters to pay attention to frauds / leakages in insurance. In their priority list such matters are always at the bottom.

- **Inadequate enforcement of system and procedures in Insurance Companies** : Although there are adequate well defined systems and procedures relating to underwriting & claims, the same are not followed in letter and spirit. These need to be strictly followed and those found guilty of violating them should be dealt with firmly.
- **Slow pace at which DCA (conduct, discipline & appeal) cases proceed and the culprits not getting punishment** : While the no. of CDA related cases in Insurance Companies are increasing, the disposal of these cases are very slow. Proper cases are not made out against dishonest people and they go scot free in the absence of evidence / witness. Quick disposal with appropriate punishment will act as a deterrent for other.
- **Human desire to get something for nothing:** The human desire to make fast buck-right or wrong – at times finds congenial atmosphere to make hay while the sun shines.

If we examine the leakages and frauds, we can broadly classify them in two groups viz.

- Those committed by the insiders e.g. company's personnel / Agents either on their own as in collusion with the client
- Those committed by the outsiders e.g. claimants, service providers, surveyors, advocates, etc.

Under the first category would come the leakages and frauds like antedating of cover note, collusion with the claimant to help him get inflated claim, granting cover but not depositing the premium etc.

Under the second category would come the leakages and frauds like staged accident / injury / arson/ theft, etc.; scuttling of ship, charter party frauds, documentary frauds, in marine insurance; wrong billing by service provider with / without the collusion of the insured etc.

Before we discuss the remedies and the strategy to combat leakages and frauds, let's examine some "fraud indicators." The alarm bell should sound whenever we come across such indicators and this calls for being more careful and vigilant in handling these cases.

- Motor cover note issued in Friday evening
- Claims made shortly after the policy inception
- Serious underwriting lapses observed while processing a claim
- Insured overtly aggressive in pursuit of a quick settlement
- Willing to accept small settlement rather than document all losses.
- Documents of doubtful nature.
- Insured behind in loan repayment
- Accident un-witnessed and not promptly reported.
- Invisible injury
- High value leakage claim without any known casualty.

These are but some of the indicators.

Being always vigilant is the only insurance to plug the leakages and frauds. Some studies made in USA a couple of years back reveal that in USA, insurer lose \$120 billion annually in fraudulent claims and about 90% of this relates to health insurance. This obviously does not include cases not detected. The study further revealed that if insurance fraud was a business it would rank 56th among the top companies in USA. A very disturbing trend that was noticed was that

most of the young respondents covered by the study did not see any wrong if the claims are exaggerated to cover insurance premium / policies, excess, etc. The position is not that alarming in India. However MACT and health segment claims are posing serious threats. In fact in India no study has been made to assess the extent of frauds / leakages and what percentage it constitute of the total claims paid. Any such study in reference to MACT and health will bring out startling revelation. The following remedies are suggested –

For internal frauds:-

- Strict adherence to system and procedure relating to underwriting and claims.
- Internal check and balances to be strengthened and strictly enforced.
- Severe punishment to guilty persons and speedy disposal of CDA cases.
- Apart from their traditional role and functions, IAD and Vigilance should prepare system of prevention rather than having whole heap of records.
- Developing culture of work place ethics / integrity in the organization.
- People in insurance company should be educated that their indifference towards the leakages and malpractices in their offices has serious implications for them also apart from the organization.

For external frauds:-

- Pursuits of civil litigation against these involved in fraud.
- Close cooperation with law enforcing agency.
- Seek the help of public spirited people / NGOs.

It should be understood that unless the unscrupulous person from the Insurance Co., the insured and the surveyor / advocate / investigator join hands it is very difficult for any leakage / fraud to take place. Surveyor / advocates / investigators are independent professionals and they have to abide by professional code of ethics. The surveyors in particular have to abide by IRDA guidelines also. The performance of surveyors / advocates / investigators needs to be constantly monitored vis-à-vis their integrity. Competence, job-knowledge, work-quality, timely submission of report, etc. Based on the appraisal, action as deemed necessary and wherever warranted should be initiated. This will not only help in plugging the leakages but will also help in better overall claims management.

Let's develop a culture where it becomes difficult to commit fraud / leakages and get away with it. This is in the best interest of insuring public at large, the insurance companies as also the society. Claims settlement being a key service parameter, and therefore, while every effort should be made for speedy settlement of claims, a balance has to be maintained to ensure claims of doubtful nature are properly examined and looked into before they are passed.
