

SURVEY

SAICB

South African Insurance Crime Bureau



30 OCTOBER 2008

Committed to the fight against crime



BYLAE

SAICB

Die SA Versekeringsmisdaadburo



30 OKTOBER 2008

Verbind tot die stryd teen misdaad



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The world's finest

Data mining is initially the most important aspect of SAICB's activities

SOUTH AFRICA WILL HAVE one of the world's best short-term insurance crime bureaus once it's fully operational. The model adopted for the SAICB evolved from a four-year research initiative into best global practices and merged the best of the best into a single indigenous model.

SAICB head of operations Hugo van Zyl says the research finally homed in on the models found in Britain and Sweden: Britain because its data mining model was one of the best and most successful, Sweden because its crime trends in many respects mirror those in SA, with foreign syndicate involvement in car hijackings, leading to a strong investigative model.

The SAICB model, says Van Zyl, combines the data mining and investigative functions into one body – something that's worked best for other successful fraud bureaus. With the model now established, an SAICB board functional and Van Zyl himself appointed the body is currently in the establishment phase. He expects it to be fully operational by end-October and actual data mining to start from 1 November.

Data mining is initially the most important aspect of its activities, so Van Zyl is concentrating on hosting scoping sessions with its technology partner, Memex. "Our members have dedicated senior personnel to these scoping sessions and we're also bringing in-house our Fraudline, currently managed by Deloitte, which will probably continue to manage it."

Raw data is received from Insurance Data System (IDS), managed by Transunion, while tip-offs are received from Fraudline. Those will be uploaded to the Memex system for further analysis. IDS is an information sharing initiative undertaken by the short-term insurance industry, where information regarding claims and underwriting is shared to better manage risk and fight crime.

The similar British body – Insurance Fraud Bureau – opened in 2006 with five member companies and rapidly grew to 34 when the benefits of membership became evident.

By contrast, the SAICB commenced operations with 10 member companies representing 85% of SA's total short-term industry and has already acquired its 11th member. The

South African Insurance Association (SAIA) has 54 members, though a large number will probably never join – for example, reinsurers and niche market insurers.

Van Zyl attributes its initial success to sound preparation over preceding years and a close relationship between SAIA and member companies. "The concept was therefore an easy sell to members and we're still working on other companies to join. The more information we have to work with the better the quality of the data mining we can share with all role players."

IDS already has approximately 8m transactions recorded, collected mostly for underwriting and risk assessment purposes but never mined for trends throughout insurers. To that will be added all new transactions, as well as the tip-offs received from the Fraudline every month. On a daily basis, the SAICB's function will be to analyse that information and identify syndicates. Thereafter, the focus is on investigation and liaising with authorities to obtain a conviction. For that reason Van Zyl, whose background includes a 25-year stint with the police, as well as years of forensic investigation into short-term insurance fraud, is well suited to head the operations of the SAICB.

It's well known that syndicates operate across all classes of crime, so a conviction for short-term insurance fraud will possibly also take off the streets individuals involved in hijackings, medical scheme fraud, business premises robberies and ATM bombings.

"From the information received we'll be looking for patterns, will investigate them and mine further, as well as send the information to member companies," says Van Zyl. On uncovering a serious suspicion



Hugo van Zyl
Matching criminals' sophistication.

of a syndicate at work, all affected insurers will combine resources and the police will become involved.

"An important aspect of our daily work will be getting regular feedback from member companies, as to what we're doing right and what else might be useful," he says. If close co-operation was the key to the SAICB's establishment it will be even more so for its ongoing fight against crime.

The British experience from that initial phase is illuminating, Van Zyl says: of the fraud previously considered to have been "opportunistic" by insurers, fully 40% was found to be the work of organised syndicates – that's in addition to the percentage already known to be organised crime. Van Zyl says the same can't automatically be expected to be the case in SA, but he's certain it will unveil some similar trends, if not the very same.

Although opportunistic fraud is not

the target of SAICB, data mining will also expose much of it, though that will continue to be investigated, as now, by individual insurer's internal forensic units. The British experience has been one of a rising incidence of convictions, millions of pounds in savings and 81 convictions in little more than a year.

Van Zyl doesn't expect a slow start-up by the SAICB but anticipates investigations from day one, including those into major syndicates. The member companies have already passed on information of syndicates under investigation by individual insurers.

Memex provides a complete audit trail that will help with the building of a docket. With this the SAICB will be able to assist the police and prosecuting authorities to more successfully conclude a bigger number of insurance fraud cases.

The effect of the SAICB will extend far further than the short-term industry. Former policeman Van Zyl says it's well known that syndicates operate across all classes of crime, so a conviction for short-

term insurance fraud will possibly also take off the streets individuals involved in hijackings, medical scheme fraud, business premises robberies and ATM bombings.

These are intelligent criminals we're dealing with, often easily able to outwit under-resourced police departments.

"The result will be that there's nowhere for criminals to run – we will be taking away their trade," he says.

The reason so many insurers joined the British equivalent is that syndicates rapidly realised they could no longer commit fraud against member companies and so switched attention to non-members

– which immediately joined and began sharing information.

Van Zyl expects exactly the same to happen in SA. "These are intelligent criminals we're dealing with, often easily able to outwit under-resourced police departments. But we're matching their sophistication and by wide co-operation will hopefully be able to outwit them. The National Prosecuting Authority will be involved in our investigations as well as the SAPS and any other relevant arm of the police.

The future strategy of the SAICB, and the combating of commercial fraud in SA, will be for all such industry crime bodies to collaborate and share information. Just as syndicates have been able to get away with crime by moving from one insurer to another so they also shift from one financial service to another.

"We're talking to the industry associations for medical schemes, banks, life companies, brokers and others to see if we can further pool information for a united stand against crime in SA," says Van Zyl. *

Creating an awareness that insurance fraud is also a crime



Servaas du Plessis
We have the business model in place.

THE SHORT-TERM insurance industry aims to change the culture of South Africa towards insurance crime. SAICB board chairman Servaas du Plessis says the SA Revenue Service successfully changed the corporate tax-paying culture of this country and he believes – with a concerted effort – a wider zero tolerance towards insurance crime can become a reality. It isn't enough just to tackle crime and lock away offenders when many of them and their peers believe they've done nothing wrong.

The "high tolerance" of crime in SA has been blamed for many ills, from the poor safety record of our mines – if commuters lives are at risk in their taxis every morning they won't suddenly become safety conscious down a mine – to wholesale pirating of movies and music, which is not only a commercial crime but also destroys art to believing insurance fraud has no victim.

That culture of not seeing certain activities as crime has got to change, says Du Plessis, and the establishment of SAICB is one step in that direction. "There are many things that people simply don't see as an insurance crime, because the focus in this country has lately been on corruption and

serious and violent crimes. But that will change over the next few years as we identify and prosecute syndicates targeting the insurance industry," he says.

The rationale for that belief is that syndicates are involved in a wide variety of crime and therefore locking them away for insurance fraud will also take off the streets the perpetrators of many other crimes, including violent crime.

While the focus of the SAICB will be on combating organised crime a spin-off will be that individuals who opportunistically claim for the same goods from more than one insurer will also be prosecuted. For the first time the sharing of information among insurers will not only make that possible but also make detection a certainty.

However, creating a zero tolerance for crime doesn't come from data mining and prosecutions but creating awareness among ordinary consumers that insurance fraud is a crime, that they're the victims through increased insurance premiums and that they should report their suspicions.

Partly, that comes from inculcating a public awareness that insurance fraud isn't something harmless. Du Plessis says

that in Britain the IFB was startled to learn that a large percentage of the proceeds of insurance fraud is used to finance global terrorism.

In Britain the IFB was startled to learn that a large percentage of the proceeds of insurance fraud was used to finance global terrorism.

"That isn't going to be the case in SA, but we have our own issues, such as SA goods disappearing into other parts of Africa. We don't yet know what will come out of our investigations but the experience of countries such as Britain and Sweden suggests insurance fraud is seen as a soft target to finance other worse criminal activities," says Du Plessis.

Given that likelihood, the SAICB is bent on establishing a close working relationship with the various policing authorities and has already received support from the Gauteng commercial crimes unit and the court. "We'll need them to take such matters through the courts," he says.

That level of co-operation is a long way from that of a decade ago, when short-term insurers scarcely spoke to each other, being more interested in competing than co-operating. Says Du Plessis: "The establishment of fraud bureaus has been the practice worldwide and we began about four years ago looking at the possibility of having one here. During 2007 we went to Britain, which had a new bureau, and to Sweden, which had an older one, and researched the best model for SA. We specifically didn't want to call it a fraud bureau, as we wanted it to encompass all crime."

Insurance fraud involves fraudulent claims made against insurance companies. However, many ordinary crimes are themselves insurable incidents and result

in valid claims. The aim is to reduce claims across the board.

"Our research showed the British model is very much about advanced, hi-tech data mining through different networks for patterns and multiple claims. It also has a high degree of co-operation with their authorities to get prosecutions.

"Sweden also has data mining, but in addition has an investigative capacity using networks and informants. It appoints a staff member who then liaises with all involved insurers and the authorities.

"We took the data mining model from Britain and investigative model from Sweden and merged them into one for SA. There's no model in the world like ours and I believe it will be a huge success. We now have the business model in place. Our aim is to extend our activities through co-operation with the entire financial sector. Many of our members are part of larger financial services firms and our long-term objective is to try to eradicate white collar crime," says Du Plessis. *

Tip-offs leap 200%

FRAUD IS CURRENTLY on the rampage in South Africa, with Deloitte's Tip Offs Anonymous reporting a 200% increase in them over the past 18 months, and the SA Police Service (in its latest published crime statistics) reporting a 180% increase in commercial crime.

Nicholas John, COO at Tip Offs Anonymous, says he was at first shocked to read the official police statistics but when he checked them against its own statistics found they were in line. "We're seeing a strong upward trend in each of the three main areas of commercial fraud: banking, medical aid and short-term insurance. The insurance tip-off line is one of our busiest. Whenever there's an economic tightening we tend to see an increase in fraud by people living on the edge," John says.

In fact, it's even more responsive than that, says John: whenever there's an increase in fuel or food prices the number of calls leap.

Tip-offs aren't synonymous with actual instances of fraud: a tip-off may be entirely baseless and may also pre-empt a claim. However, individual insurers have also said they've detected a noticeable increase in activity over the past six months. And the



Nicholas John
Shocked by statistics.

trend does match police figures. John says there's also been a noticeable increase in tip-offs against senior management of companies in the three industries, whereas in the past it had been more limited to lower level staff.

A tip-off may come from an overheard conversation or some suspicious activity, and Deloitte's Tip Offs Anonymous then reports it to the company involved.

There's also been a noticeable increase in tip-offs against senior management.

One challenge is the quality of tip-offs. The SAICB hopes to improve the quality of these tip-offs, as they can be cross-referenced against other information in the system for deeper analysis. "We're working with the SAICB on how to obtain high quality tip-off information," says John. *

Serious about fighting insurance crime



The SAICB strives to work closely with SA's law enforcement bodies, including the SA Police Service.

SAICB IS THE RESULT

of many years of investigation, research, debate and fact-finding into organised insurance fraud and is the short-term industry's way of combating the crime. Insurance fraud costs South Africa's short-term insurance industry billions of rand each year. With the total claims at almost R22bn paid out by the short-term insurance industry in 2006 (the latest available audited figures), if only 10% of those claims have an element of fraud we're talking about more than R2bn/year companies could have used in better ways.

Although it's true many short-term insurance companies have excellent forensic departments and do excellent work in terms of uncovering

fraud, the industry decided an industry approach was needed to make a real impact.

SA's insurance companies – with their forensic departments and zero-tolerance approach to fraud – are dealing reasonably well with opportunistic fraud and will continue to do so. Opportunistic insurance fraud includes those claims that are inflated; a once-in-a-lifetime false claim by an ordinary policyholder in temporary financial trouble, or even an inflated claim after being convinced to collude with a service provider in order to compensate for the excess that had to be paid.

Many insurance companies find themselves paying for the same "incident" although unaware of that fact. In addition, insurers may be

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« targeted in different ways by using different identity numbers, car registration numbers, addresses or names; or they may get targeted by a syndicate that operates

The industry will now speak with one voice on crime matters and companies will have a dedicated organisation through which to channel information.

either with or without inside help, such as "assistance" from a service provider. It's also expected much fraud hitherto perceived as opportunistic is actually

organised fraud.

So it became quite clear that although short-term insurers have been sharing information – with the permission of their policyholders for the purposes of risk management, including fraud – that information wasn't being put to optimal use. The system didn't look for patterns of claims that could be used to identify fraud throughout the industry and thereafter investigated with a view to prosecuting criminals.

The industry needed to go beyond information sharing and decided to do so by establishing an insurance crime bureau. It's important to note the SAICB isn't a law enforcement body but a crime-fighting organisation that will leverage the sector's expert knowledge of insurance fraud and crime – knowledge specifically designed to detect the patterns needed to identify organised insurance fraud – and integrate it with the specialised investigative skills

needed to investigate crime.

To that end the SAICB will strive to work closely with SA's law enforcement bodies, including the SA Police Service and the National Prosecuting Authority. The role of the SAICB will be to liaise with both while working on specific cases and handing over the cases over to them once they're finalised in terms of investigation and evidence gathering.

The industry will now speak with one voice on crime matters and companies will have a dedicated organisation through which to channel information to the authorities. Such a close working relationship will combine knowledge, resources and expertise for a holistic solution. Furthermore, it's likely organised insurance fraud is linked to other types of organised crime and therefore a knock-on effect from the SAICB's activities could be experienced in other crime areas, such as vehicle hijackings. *

Eleven members already on board

THE FIRST SA Insurance Crime Bureau (SAICB) board meeting took place on 20 May this year and consisted of high-level representatives from the founder members, as well as Barry Scott, CEO of the South African Insurance Association (SAIA).

SAICB was registered as a Section 21 not-for-profit company. Eleven companies have officially joined the SAICB, the 10 founder members being: Mutual & Federal, Hollard, Regent, Zurich, Lion of Africa, OUTsur-
ance, the Telesure Group, Santam, Absa Insurance Company and Standard Insurance. They have since been joined by MiWay, and others have shown interest.

The SAICB's first board chairman is Servaas du Plessis, from the FirstRand and STI Group, representing OUTsur-
ance and Momentum STI. He'd been key in the process leading up to the decision to establish SAICB and part of the task team that researched similar bodies overseas, together with Mutual & Federal's Gerald Davis and SAIA's Vivienne Pearson.

Barry Scott, CEO of SAIA, said after the inaugural SAICB board meeting: "The SAIA is excited about the establishment of SAICB. Insurance fraud costs the short-term insurance industry a lot of money each year, which obviously also impacts on the

cost of insurance."

Du Plessis says the SAICB's objective is to address insurance fraud "in an organised and holistic way using an intelligence-driven system that could detect patterns in existing industry data. SAICB will investigate organised insurance fraud, together with the insurance companies involved, as well as the relevant law enforcement entities.

Insurance fraud costs the short-term insurance industry a lot of money each year, which obviously also impacts on the cost of insurance.

"SAICB will leverage existing shared data to detect organised fraud, develop an investigative approach to managing fraud events impacting multiple insurers and provide a platform to improve the governance over the management of shared insurance data, driving short- and long-term cost savings."

Hugo van Zyl was appointed head of operations and he started working on

1 July 2008 from SAIA's offices. The first staff member has been appointed and SAICB will have a staff complement of nine early in 2009.

Through the systems of technology partner Memex, the SAICB will mine the existing and future data from the member companies currently held on the insurance data system (IDS), held by Transition. SAICB members will share information for crime-fighting purposes. *



Barry Scott
Excited about the establishment of SAICB.

Education seriously needed



Denise Shaw

There are people so financially desperate they'll take a chance.

THE RAPID GROWTH of South Africa's middle class, coupled with increased wealth through all income groups, has brought a host of new clients into the short-term insurance market. However, not all fully understand their policies – especially in products where there's no broker. So an education drive is essential.

Denise Shaw, MD of Standard Insurance Company, the short-term insurance arm of Standard Bank, says ignorance goes as far as people expecting their mortgage lender to be responsible for the maintenance of their homes. In addition, over the past six months she's detected a "seriously increasing trend"

of people claiming for household goods they never owned and inflated claims as SA's credit crunch bites deeper.

"Apart from the genuinely ignorant, who are a minority, there are people who are so financially desperate they'll take a chance – and in many cases they don't see that as fraud. We see frequent cases of people behind on their mortgage repayments try to relieve their financial position with an insurance claim – and who get quite sticky when we refuse to pay," says Shaw.

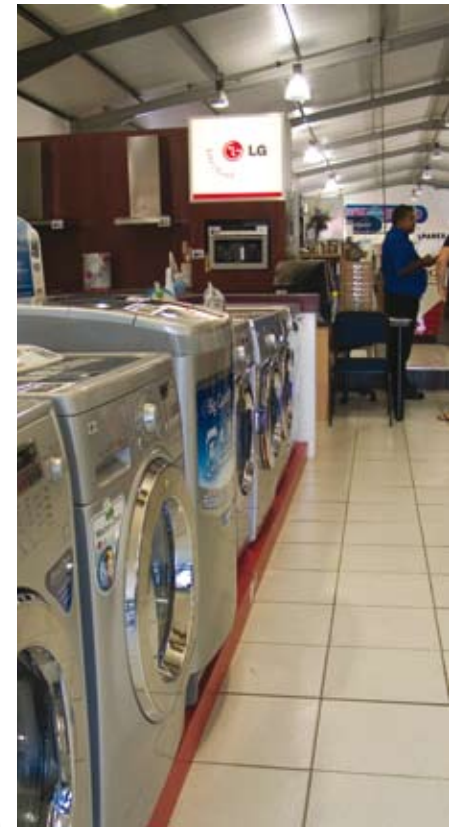
Standard's education drive has partly been to include information brochures with annual renewal notices, plus regular communication. One aim of the process will be to educate people they're unlikely to get away with inflated or fraudulent claims. Insurers such as Standard have improved their technology to match diverse pieces of information that detect a pattern and then spit out an exception report.

Standard's forensic capability was born five years ago when syndicates became rife in the funeral cover business. "During our first year alone we repudiated more than one thousand claims, which is substantial considering the average claim is around R10 000. We're still uncovering syndicates in the funeral business, but we've come a long way," says Shaw.

That forensic capability has been extended to other areas of business, where similar progress has been made on household claims. But Shaw says the vehicle business is a relatively new area for Standard and one requiring a concerted effort to clean up. "It's the area where I believe the SAICB can make the biggest impact through the sharing of information. Here, too, we've seen a considerable increase in inflated claims and outright fraud during this period of economic slowdown."

A more tricky area of fraud is where there's collusion between a policyholder and a staff member of the insurer or supplier.

"We can't audit every single claim and that type of activity is particularly hard to detect. It may be uncovered electronically, but that tends to be reactive rather than preventing fraud in the first place, when the damage is already done," says Shaw. *



There's a seriously increasing trend of people claiming for household goods they never owned and inflated claims as SA's credit crunch bites deeper.

Absa boosts crime-fighting capacity

THE WAR ON COMMERCIAL CRIME is being waged not just by the SAICB: individual insurers have also been expanding their capacity to clamp down on individuals making fraudulent insurance claims. An insurance policy is a legal contract that minutely spells out what's covered and how to claim. Intentionally making a false claim is fraud.

Jacques Pretorius, Absa Insurance GM for personal lines, says for that reason policyholders need to be familiar with the terms and conditions of a contract. While the emphasis of its investigative arm is on growing its capability, Pretorius highlights the risk taken by individuals making a valid claim – for example, 20 stolen objects after a

burglary – who add on one more thinking it won't be noticed.

In its own way, that's also fraud and policyholders frequently don't understand the entire claim can be repudiated on the basis of that one extra item. "We can't pay fraudulent claims, because if we do, we're prejudicing other honest premium-paying

policyholders," says Pretorius. "There's a responsibility on the insuring public to be familiar with the terms and conditions of a policy and what they can and can't claim for."

There are other serious instances of unethical behaviour among the insuring public that possibly also isn't fully understood: making a claim for an accident where the driver of the vehicle was under the influence of alcohol but didn't disclose that fact, material misrepresentations made in the policy application or failure to disclose pertinent facts.

While certain ethical and moral standards may be cloudy in SA, Absa has an international stakeholder – Barclays plc – for which there's no such ambiguity. "Barclays – together with Absa – is very focused on ensuring we deal firmly with unethical behaviour from the general insuring public," says Pretorius. Absa Insurance has experienced staff, as well as processes, to deal with fraudulent claims and Pretorius says it's been achieving significant success.

The types of fraudulent claims are almost innumerable, but include: duplicate and "paper" vehicles, claiming for goods the policyholder never owned and

claiming for the same genuinely stolen items from more than one insurer and not disclosing it.

"If they did that with one insurer they're likely to be doing it with others. And that's where the SAICB comes in. It can cross-reference data to see if the same is happening at multiple insurers. It can also decide on how best to tackle syndicates, whether to involve other bodies in the investigation and to determine how far the crime stretches."

Absa has exactly the same capability in respect of forensic investigations. Says Pretorius: "What we've done recently is build up our own capability and capacity to cover as wide a field as possible and that's so far been a very successful strategy. Are we sure we're detecting every fraudulent claim? We'll never know. But the real question is: Are we doing enough to identify fraud? Of course, there's always scope to improve and we have action plans in place to do so."

The SAICB comes in addition to what insurers such as Absa are doing, and Pretorius is certain that sharing information and working together to combat insurance crime will reveal a lot of incidents that individual insurers couldn't detect. *

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Jacques Pretorius
We can't pay fraudulent claims.

Escalating fraud will hit consumers hard



Jerry Chetty

Policy of a 'zero-tolerance' approach towards fraud.

SANTAM, SA's largest short-term insurer, also says the current tough economic climate is such that more people may be tempted to consider committing fraud due to financial pressures.

Jerry Chetty, Santam head of Forensic Services, says: "We believe that an unequivocal policy of a 'zero tolerance' approach towards fraud, combined with a policy of prosecuting all offenders, acts as a deterrent in preventing fraud from occurring. "We currently have 374 cases pending investigation at the SA Police Service. In our experience somebody given to criminal activity is as likely to commit fraud in good times as in bad."

Santam's philosophy is that deteriorating economic circumstances is no justification for treating fraud any more leniently than would otherwise have been the case. Chetty says it's Santam's policy to report all instances of fraud to the authorities, irrespective of the nature of the crime, the amount involved or whether it's been committed by an employee, client, intermediary or business partner.

"Fraudsters shouldn't for one moment think we'll be any more lenient by virtue of economic circumstances. We'll do everything in our power not only to prevent fraud from occurring in the first place but also to prosecute offenders to the full extent.

"Inevitably, our approach has resulted in the company itself suffering no finan-

cial loss, while the person committing the offence may have to deal with criminal convictions for fraud and perjury, the shame to himself and his family, the obvious cancellation of his policy with us and a consequent inability to obtain insurance cover anywhere else," says Chetty.

He assures clients genuine claims aren't prejudiced in any way by any assumption of fraud. "Honest clients have nothing to fear. Where the claim is genuine we honour our commitments in full. It's certainly not our intention or policy to treat clients as criminals; on the contrary, we invite them to join us in combating crime and have recently introduced a service that allows them to easily forward any details of suspected wrongdoing via SMS. Total anonymity is assured.

"We believe that will be an efficient and reliable form of communication that will allow Santam to act quickly on fraud tips. We expect our text-message based fraud tip line to become the standard throughout the insurance industry. We also anticipate the facility will evolve from simply text messages to photographs and video clips of unethical

behaviour as well."

Chetty says people witnessing a potential scam can text fraud alerts using Santam's short code 31640. The text message is immediate and delivery is assured, increasing the company's ability to respond quickly and appropriately. He appeals to those making use of its service to provide as much detail as possible and answer questions, such as: who, why, how and when?

Chetty recommends clients who may be feeling the pinch due to the current economic circumstances should discuss the options available to them with their brokers. "There are a number of options for reducing the premiums payable on insurance policies. While clients should always ensure they're appropriately covered their broker is best placed to advise them on the best means of managing their risks relative to their financial circumstances."

Santam's channels for reporting fraud to Forensic Services are:

SMS: 31640

Email: forensic.services@santam.co.za

SA Fraud Line: 0860 600 767. *

Increase in fraudulent claims

WITH CONSUMERS AND BUSINESSES coming under increased cash flow pressures from higher interest rates and inflation, insurance companies are noticing a marked increase in the number of fraudulent insurance claim submissions. Adam Samie, CEO of Lion of Africa Insurance, says the cost of fraudulent claims in the short-term insurance industry in South Africa alone is close to R2bn/year.

Says Samie: "In the current economic climate any further increases in fraudulent claims will unfortunately simply result in higher premiums charged by insurers in an effort to recoup their losses." He hails the establishment of SAICB and was instrumental in its formation as current chairman of SAIA. "With a high likelihood of insurance premium increases, the industry at large needed to come together to share information and act quickly in order to safeguard and protect its clients."

Noor Osman, Lion of Africa representative on the board of directors of SAICB, adds: "Lion of Africa has played a pivotal role in spearheading the establishment of SAICB, where research that we've reviewed has shown the

successful implementation of fraud prevention units in Britain and Switzerland." *



Adam Samie

The industry needed to share information.

Key to efficiency

POLICYHOLDERS ULTIMATELY PAY

the price for insurance fraud, as insurers can't absorb the cost of those losses. Leon Vermaak, CEO of the Telesure Group, says: "Insurance fraud is a major economic crime that imposes significant financial costs not only on insurers but also on businesses and society as a whole. However, quantifying the actual extent of insurance fraud is difficult, as much of it goes undetected.

"But what's certain is that consumers are most certainly and unfairly the ultimate victims of insurance fraud. That's because insurance companies can't entirely absorb the losses sustained due to fake claims and must account for the risk of fraud in their premiums. What that means is the burden of fraudulent claims and other insurance-related crime is ultimately passed on to policyholders in the form of higher premiums. Obviously, our goal is to provide maximum protection for our policyholders at a fair price. If we can limit the incidence

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Synergies will reduce insurable crimes such as hijacking and theft.

of insurance fraud we can continue to offer competitive premiums."

Telesure Group is the holding company for leading short-term insurance brands such as Auto & General, Budget Insurance Brokers, 1st For Women Insurance Brokers and Unity Insurance.

Vermaak says of the SAICB: "With greater transparency and improved information sharing at its core, the SAICB is a powerful resource for gathering and

The impact of organised crime extends far beyond the bottom lines of insurance companies.

analysing information that can be turned into actionable, crime-fighting intelligence to stamp out organised crime and fraud in the insurance industry.

"It creates a platform for closer collaboration between short-term insurers



Leon Vermaak

Consumers are most certainly and unfairly the ultimate victims of insurance fraud

and with the police to address a problem that costs the industry millions every year and to protect the majority of ethical and honest consumers prejudiced by a minority of fraudsters who abuse insurance for their own financial gain.

"More can be achieved in the war on crime if we unite at industry level and we at Telesure are pleased to be aligned with like-minded partners who share that view. This is a firm and decisive initiative by the industry to tackle fraud. We're proud to support the launch of the SAICB and we put our full weight behind its future endeavours."

Vermaak adds the impact of organised crime and fraud in the insurance industry extends far beyond the bottom lines of insurance companies. He says companies within the Telesure Group, like most other short-term insurance companies, apply stringent measures, particularly in terms of their claims assessment procedures, in an effort to identify and prevent fraudulent claims. The group has also established a specialist fraud unit that analyses claims data to identify fraudulent activity and trends. "The SAICB takes our efforts to a whole new level." *

The honest also have rights



Gerhard Naudé
Report fraud.

FRAUDULENT INSURANCE CLAIMS remain rife, but they often rebound on the claimants, says Gerhard Naudé, forensic risk manager at Zurich. "We operate on a premise of mutual trust between ourselves and our clients. If clients submit inflated claims it ultimately results in inflated premiums – so honesty is definitely still the best policy."

For this reason, Naudé recommends when people are aware of fraud they report it to Zurich's Insurance Fraud Hotline – established for precisely that reason. In conjunction with Deloitte's Tip Offs Anonymous initiative, Zurich's hotline was established to allow individuals to give anonymous tip-offs of fraudulent activities. "Commercial crime causes a significant percentage of business failures, which in turn ultimately result in job losses. Through the use of a hotline facility employees can protect their jobs as well as their organisation's future."

Many fraudulent claims are ultimately uncovered, he says. "Should a client be suspected of submitting a fraudulent claim internal investigations and forensic auditors will investigate the matter further and employ external sources where necessary. The result is the claim will be rejected and, depending on the circumstances surrounding the claim, the policy can also be terminated."

However, the industry may also take the case much further. "In the case of an incident of fraud we'd also then institute criminal proceedings

against the guilty party. That's because fraudulent claims don't only negatively affect our profit margins as an industry but also costs the insurance industry billions in 'marketing' fees that are ultimately paid by you and me – the insured," says Naudé.

It was this issue that led to the establishment of the SA Insurance Crime Bureau (SAICB) to address insurance fraud in an organised and holistic manner, using an intelligence-driven system that could detect patterns in existing industry data.

"Ultimately, the most direct effect of fraud and corruption in the insurance industry is an escalation in the cost of claims – which directly affects our profit margin. We understand in SA's current constrained economic climate insurance is very often seen as a gripe purchase, albeit a necessary one. We further understand that wherever individuals find themselves strapped for cash, the temptation to file a fraudulent claim is stronger than ever. Crime is crime, regardless of its shape or form, and we at Zurich feel it's unfair for the innocent to pay for the sins of the guilty."

It's through the SAICB and the insurance fraud hotlines that Zurich is attempting to deter and combat fraud, resulting in a win-win situation for all involved, he adds. The Zurich fraud hotline number is: 086 000 5678. Deloitte also has a hotline number, which applies to all insurance companies: 086 000 2526. *

The benefits of SAICB

THE NATURE OF “organised insurance crime” differs fundamentally from opportunistic fraud risks affecting insurers and requires an alternative control framework and benefits-tracking mechanism. Organised insurance fraud is typically crime performed by groups acting as facilitators that coerce individuals into acting as claimants, who are then represented by a range of service suppliers or third parties.

SAICB is targeting those facilitators as much as the claimants, because those organisations are likely to be involved in a range of serious and organised crime.

All insurers already have in-house initiatives to control organised crime through a variety of informal methods. However, the fragmented nature of the current control framework hampers the building of a benefits case built solely on direct financial return. The benefits of effective organised-crime management are much more likely to be seen over time, because the activities of the facilitators are disrupted, and the much-increased risk of detection deters them from operating in the insurance sector.

A “balanced scorecard” approach, based on risk identification levels, combined ratio trends, prosecution levels and direct recoveries via civil litigation will be built. Individual companies will gain the following from that initiative:

- Early access to high-grade intelligence,

based on a robust, industrialised detection process that will allow companies to more effectively focus their response to ongoing crime risks.

- The receipt of regular alerts, which will enable companies to monitor future claims and manage underwriting risks.
- An early warning that pending individual claims may be fraudulent and which might otherwise not be detected by individual insurer investigations or control mechanisms.
- Potential for recovery from the facilitator of organised crime through effectively governed and co-ordinated market action.
- An overall reduction in the cost of investigation and claims management, as duplicate activity will be reduced and opportunities found for cost-sharing.
- The strong likelihood the disruption of syndicates orchestrating organised insurance fraud will lead to improved financial performances.
- Synergies with reduction in other insurable crimes, such as hijacking and theft, as well as general crimes. Once a syndicate is disrupted and/or removed, a positive knock-on effect is expected on other crimes and claims linked to those.
- Assisting insurers to ensure compliance with relevant legislation through the management of reporting.

- Protection against positive selection by the criminal fraternity, thereby strengthening fraud aversion and prevention strategies. *

Industry-wide benefits

FOR THE INSURANCE INDUSTRY as a whole the initiative is important, for the following reasons:

- It presents a unique opportunity for the industry to manage a significant risk, of which most is currently undetected and unmanaged.
- It allows insurers to manage a risk that affects all companies and which no single company can significantly manage on its own.
- It demonstrates the industry is sensitive to the requirements of SA’s fight against crime – specifically commercial crime.
- It’s aligned with Government objectives to protect all economic stakeholders from the effects of organised crime.
- It will allow the industry to make the case for an effective prosecution response through the justice system by aligning its activity with those of the relevant authorities. *

The SAICB's objectives

THE MAJORITY OF South Africa's short-term insurance companies currently manage insurance fraud and other insurance crime using ad hoc detection methods and informal information exchanges. That fragmented control framework has been found to be limited and fails to make best use of insurer data assets and human resources.

It also fails to address the "organised" element of insurance fraud and crime, as well as the habitual or multiple claimant – both areas believed to account for a significant portion of insurance fraud and crime. For example, in Britain the equivalent Insurance Fraud Bureau has established that 40% of insurance fraud hitherto thought to be opportunistic fraud is in fact organised crime.

The SAICB initiative will: leverage

existing shared data to detect organised fraud; develop an investigative approach to managing fraudulent events impacting multiple insurers; and provide a platform to improve the governance over the management of shared insurance data, driving short- and long-term cost savings.

The SAICB investigative unit won't replace existing investigative units in member companies but only become involved when more than one company is involved. In such cases they'll also co-opt investigators from the relevant companies. Other prerequisites for an SAICB investigation will be: serial offenders are identified and the involvement of organised crime is identified. The investigative units of individual companies will remain in place to investigate member-specific fraud and crime.

The services to be offered by the SAICB to its members include:

- Sending alerts when patterns are identified within a specific company for investigation by that company.
- Identifying patterns across companies (and the industry) and investigating those with the involvement of relevant member companies.
- Identifying and communicating modus operandi to members.
- Communicating with the authorities and other relevant role players to facilitate investigations throughout the industry.
- Creating public awareness about insurance fraud and crime.
- Managing the industry Fraudline.
- Hiring out its investigators to companies who don't have investigative units. *

Insurance Data System versus the SAICB

TO REDUCE THE IMPACT of fraud on South Africa's short-term insurance industry – and, for that matter, on the economy and every consumer – the industry has for some time been collaborating in a data sharing initiative known as the Insurance Data System (IDS), developed under the auspices of the South African Insurance Association (SAIA).

IDS is a centralised database of claims and policy information to which insurers, brokers and underwriting managers provide their policy and claim information and which allows them to enquire and assess the risk of an individual, risk address and vehicle.

Chris van Rensburg, executive: insurance & D2C at Transunion, the company that won the SAIA tender to manage the database that was launched in July 2001, says: "This facilitates better underwriting decisions, as the risk is assessed up front. By supplying all claims information the insurance industry can identify fraudulent claims, as it has access to claims information across the short-term insurance industry and can therefore identify duplicate claims.

"Since 2001 the system has grown from a claims enquiry system to a robust central hub of information that benefits the underwriting, claims and various other departments. The insurance industry

as a whole benefits from IDS, as companies obtain an external view of their risk to make more accurate underwriting decisions, as well as being able to more effectively detect and prevent fraudulent claims," says Van Rensburg.

Collaborative data pooling makes it possible for the insurance industry to have access to factual behavioural information so that informed underwriting decisions can be made. Insurers and brokers are also in a better position to identify and manage fraud because claims information is shared and they can identify where duplicate claims are submitted to different players in industry.

How does that differ from the new South African Insurance Crime Bureau (SAICB), which is a crime-fighting organisation that will focus on mining existing information to fight organised insurance fraud at an industry level?

The two different entities – the SAICB and IDS – offer distinctly different benefits and have completely different focuses. The IDS could mainly

be seen as an underwriting and claims management tool and should be used by its members in that way. The SAICB will only focus on insurance crime fighting, with a focus on organised insurance fraud, but will use the information supplied by IDS and other data sources as the starting point of its operations. *

Factual
behavioural
information.



Chris van Rensburg
Since 2001 the system has grown to a robust central hub of information.

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