

South African Insurance Crime Bureau

A business case

1. Purpose

This document outlines the objectives, costs and benefits of the establishment of a South African Insurance Crime Bureau, in an effort to improve the way organised insurance crime is detected and managed. The initial focus of this Bureau will be insurance fraud, and particularly organised insurance fraud.

The paper is aimed at Executives, and intended to form a basis on which insurers can confirm participation in the initial rollout in early 2008.

2. Project Objectives

The majority of insurers currently manage insurance fraud and other insurance crime using ad hoc detection methods and informal information exchanges. This fragmented control framework is ineffective and fails to make best use of insurer data assets and human resources. It totally 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. In the UK, the Insurance Fraud Bureau has established that 40% of the hitherto insurance fraud thought to be opportunistic fraud is in fact organised crime.

This initiative will: -

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

3. Current Status

Background

The SAIA Fraud Committee and Fraud Task Team have been investigating the possibility of establishing a South African Insurance Fraud Bureau (IFB) for the past two years as a possible way of addressing the costly and ever present issue of insurance fraud. It is believed that insurance fraud affects all short-term insurance companies.

After the investigations of these committees, it was decided that an IFB should be recommended to SAIA members. It was proposed and accepted that the best way to ensure that a well researched business case is presented to the SAIA Board, that a study trip was necessary.

A voluntary Task Team, consisting of V Pearson (SAIA), G Davis (Mutual & Federal) and S du Plessis (OUTsurance) went to the United Kingdom to visit the UK IFB, as well as to Sweden to visit Larmtjanst AB, the Swedish

insurance crime investigation unit. These two operations were selected because the UK IFB is a fairly recent operation that was established in July 2006, while the Swedish operation had been in place since 1961 in various formats. This combination offered lessons from a new operation as well as from an established operation. These operations also have different strengths. The UK IFB operation is very much based on very modern technological input as a crucial part of its operation whereas the Swedish operation's strength mostly lies in its investigative capabilities. Both operations also offer different models in terms of potential revenue earning.

Study Trip

UK IFB:

Proof of concept

The UK IFB proof of concept analysed six years' claims data from selected postcodes, representing 0.5% of the UK population. Fraud networks were identified where high numbers of claims across multiple insurers had been made from single or linked addresses.

Using conservative assumptions the cost of insurance fraud impacting multiple insurers to insurers was an estimated £48.5m / annum. This was the value of the risk management opportunity, and represented crime events that were not being effectively managed by insurers.

UK IFB – real value after establishment in July 2006

- In May 2007, the UK IFB was involved in 15 active operations.
- In May, there were 7 more potential operations.
- Between September 2006 and May 2007, 30 arrests were made. Many of those arrested were also involved in other crime areas, for example drugs, people trafficking, vehicle crime, tax fraud.
- The potential savings until May 2007 was 5 million British pounds.
- In May 2007, 1 700 claims were under management with reserves estimated at over 25m British pounds.
- 8 police forces were engaged in UK IFB operations.
- 347 Cheatline calls were managed and investigated.
- The industry is seen as proactively complying with FSA objectives to combat financial crime.
- Corporate responsibility is seen as high.
- The power of the collective brings enormous results.
 - Law enforcement co-operation is fantastic. Now law enforcement truly understands the scope of the problem for the first time.
 - The co-operation of other authorities such as SOCA, DTI, DCA (Department of Constitutional Affairs) is received for the first time
 - The fight against fraud is no longer perceived as a company approach
- Networking and supporting opportunities for fraud prevention are provided.

- Individual companies' standards are raised.
- Huge government lobbying opportunities are evident.
- An increased deterrent effect is created by publicity.
- Visibility of the industry has increased.
- There is huge interest in widening the scope of the insurance fraud bureau.

At the end of 2007 we received the following updated figures from the UK IFB:

- 16 Police operations had been completed, 13 more were ongoing.
- A total of 81 people were arrested.
- 370 intelligence reports were issued to members, and claims at risk at the end of 2007 amount to the value of 14 million pounds.
- Tangible savings for members totals 16 million pounds.
- 5.5 million pounds worth of criminal assets were restrained.
- UK IFB members experienced a rate of return of 10:1.
- 2069 new high risk claims were identified at the end of 2007.
- At the end of 2007, 200 million insurance records were being analyzed.

The direct value/benefits of Larmtjanst (the Swedish insurance crime investigation operation) to members

- Larmtjanst has an excellent relationship with the authorities, and specifically with the Police. This is not possible for individual companies. In fact, Larmtjanst participates in a joint initiative, managed by a joint steering committee, with the Police with regards to insurance crime. The initiative includes four joint committees addressing four different areas between Larmtjanst and the Police, i.e. home burglary, marine crime, motor vehicle crime and investigations. This initiative has a joint budget that is used for joint investigations, as well as joint publicity which includes pamphlets on crime prevention, security manuals, communication of crime trends, etc. Trends are also identified and addressed, based on shared information.
- Larmtjanst AB's results as expressed in financial terms looked like this in 2006:
 - (R1.04 = 1SEK)
 - Goods recovered 53.5 million SEK
 - Vehicles recovered 20 million SEK
 - Vehicles international 6.6 million SEK
 - Heavy equipment recovered 0.1 million SEK
 - Boats recovered 16.8 million SEK
 - Boats international 0.8 million SEK
 - Money saved through advertisements, tip-offs, website 16 million SEK
 - Cases investigated due to advertisements in 2006 1 183
 - Cases investigated due to tip-offs 610

Evaluation of Study Trip Task Team, and subsequently the SAIA Fraud Committee

- A South African Insurance Crime Bureau (SAICB) needs to be established, with its first focus on insurance fraud. At a later stage, other insurance crime could be included if necessary and beneficial.
- A SA ICB should combine the technological approach of the UK IFB together with its approach towards data analysis, investigation and publicity, with the investigative approach of Larmtjanst.
- No proof of concept is needed. The reason for this decision is the fact that the information gathered by the Study Trip Task Team on the UK IFB Proof of Concept, as well as its real value after being established, and the value provided by the Swedish operation Larmtjanst to its members, should be enough to convince members to go ahead. A proof of concept would be a waste of time and money. (However, after the Task Team elected a preferred technological partner, Memex, they offered to do a very basic proof of concept with limited data in order to strengthen the business case free of charge. The results are available under point 4.)
- The Insurance Fraudline should be managed by the SA ICB.
- We need to use our existing data sources, including sources that are currently outside the control of insurers. Current sources would include IDS, UNICODE, E-Natis info, etc., starting with IDS data.
- An investigative unit is crucial, but a clear distinction should be made between the activities of the bureau and the individual companies' investigative units in order to ensure co-operation.
- The mix of the staff should carefully be considered.
- The power of publicity as a deterrent tool should not be underestimated.

Technology partner

An extensive evaluation of potential analytics suppliers was completed in August 2007. MEMEX was selected as preferred supplier to support the project.

Memex is used by law enforcement, intelligence and large commercial agencies around the world including the FBI, National Insurance Crime Bureau, AIG and others in the USA, UK police and intelligence agencies such as New Scotland Yard and others, National Intelligence Agency, Special Investigation Unit, SARS, Vodacom, Sasol, FNB, Standard Bank, the DTI and others in SA, and many more.

Memex has been used by such users for the past 25 years.

Amongst many other features, the Memex system offers complete data integrity and security, as well as the ability to accept and interrogate unstructured data received in different formats from different sources.

Approval

The basics of the business case were approved by the SAIA Fraud Committee on 5 September 2007. Approval is now needed from the SAIA Board.

4. SAICB – Memex proof of concept

When Memex was informed that they would be the preferred service provider should the ICB be established, they offered to do a basic proof of concept free of charge. The offer was accepted.

Memex was given the following IDS data to work with:

- Claims data from 1 April 2007 to 31 October 2007 – 414 434 records
- An extract from the underwriting data including data from only two insurance companies – 275 487 records.

The data was run through the Memex system, with a few basic searches done by Memex as an example. The following are some of the results, automatically picked up by the system, with no effort from an analyst or any person to try and look for patterns:

- Two claims were made using the same car registration but belonging to different cars.
- The same person claimed from two different insurance companies on the same car in two days.
- The same ID nr has claimed 6 times using 6 different names and 6 different cars from one company.
- The same ID nr was used by 4 different people for 5 different claims using 5 different addresses nationwide with the same insurance company.
- The same ID nr was used to claim for 3 vehicles within 3 weeks using 3 different names with the same insurance company.
- The same car registration nr was used in two different claims by 2 different people, both in Port Elizabeth, with two different insurance companies within two months from each other.
- 221 claims were found using variations of the same address.
- The same ID nr has claimed 23 times, 3 times in 2003 with insurance company 1, 19 times between 2004 and 2007 with insurance company 2 and 1 time in 2007 with insurance company 3.
- 1 ID number has appeared 10 times in this extract of the claims data base (7 months).
- 1 ID number was used in 8 claims by 6 different people, 7 of these claims involving different cars.
- The same registration number was used in two different policies with two different companies. The same registration number also appeared in the claims data linked to a third company.

5. Solution – Services to be offered to participating members by SAICB

The SAICB will **not** replace existing investigative units in member companies. The SAICB investigative unit will become involved only when:

- More than one company is involved. In such cases, they will co-opt investigators from the relevant companies as well.
- Serial offenders are identified.
- 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 members include:

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

The governing structure of the ICB will be an ICB board of directors, consisting of members' highest level claims, risk and/or insurance crime specialists. The establishment of the ICB will be initiated by the SAIA, with the assistance of seconded experts from the industry. As soon as the head of the ICB is appointed, the ICB will function as an independent body, with its own members and its own board of directors. The first board of directors will consist of the founder members of the ICB.

6. Solution – Business architecture

The major components of the proposed solution are: -

- A central function to co-ordinate and pursue the investigation of organised fraud affecting more than one insurer. This will be governed by an Operational Steering Group of senior fraud managers.
- Existing data bases need to be used as resources for information, including the IDS, Unicode, e-Natis and others.
- The definition of the interfaces between the centralised investigation unit, insurers, suppliers of legal, investigative and forensic services and external parties such as the justice system and other government agencies.
- Supporting IT functionality, including data hosting, methods to identify and visualise fraud networks, and investigation management tools.

A model office will be set up, with industry resources working with the technology partner to validate and customise the proposed business solution and IT support. No system changes are expected to be required by insurers. All IT functionality will be provided within the technology partner service. Members of the ICB will be offered the option of having limited direct access to Memex at an additional cost.

Participating insurers will be asked to provide experienced fraud management, risk analysis and claims investigation resources to develop the model office during March and April 2008. It is proposed that one or both of the current Task Team members, who are both experts in this field should be seconded by their companies for a period of 1 – 2 months on at least a part-time basis to develop the model office. The permission of the relevant companies will be sought by the SAIA. The proposed timeframes, activities and resource profiles for the model office are discussed under point 11.

The supply and loading of datasets, and longer term resourcing of the ICB central investigation unit will be completed in parallel with the model office set-up phase.

Access to existing data bases will be extremely important, and negotiations in this regard will be crucial. Business Against Crime South Africa should be requested to assist in this regard if needed.

The business architecture aims to develop analytical outputs into actionable investigations. This will require insurers to provide additional information, probably stored within claims and underwriting files at the request of the ICB investigation unit. Insurers will be required to nominate an internal single point of contact (SPOC), who will be required to gather this data within defined timescales. The SPOC must maintain the integrity of the investigation, and will therefore be subject to a number of responsibilities, which will be defined during the model office phase. Insurers without dedicated investigation teams will need to prepare to nominate a SPOC. (A SPOC profile is attached (Attachment B).)

7. Benefits Argument

The nature of organised insurance crime is fundamentally different from opportunistic fraud risks affecting insurers, and requires an alternative control framework and benefits tracking mechanism.

Organised insurance fraud is rarely carried out by one person or a limited group of people acting together. It is more often perpetrated by groups who act as facilitators, placing individuals to acts as claimants, who are then represented by a range of service suppliers or third parties. It is these facilitators that are the target of this initiative, and it is these organisations that are likely to be involved in a range of serious and organised crime.

Insurers do currently attempt to manage organised crime through a variety of informal methods. 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, as the activities of the facilitators are disrupted, and the much increased risk of detection deters them from 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 this initiative:-

- I. Early access to high grade intelligence, based on a robust, industrialised detection process, which will allow companies to more effectively focus their response to ongoing crime risks.
- II. The receipt of regular suspects lists, which will enable companies to proactively manage future claims and underwriting risks.
- III. An early warning that individual claims may be fraudulent before settlement is made, which could not be otherwise obtained by individual insurer investigations or control mechanisms.
- IV. Potential for recovery from the facilitator of organised crime, through effectively governed and co-ordinated market action.
- V. An overall reduction in investigation and claims management costs, as duplicate activity will be reduced and opportunities for cost-sharing arise.
- VI. The strong likelihood that the disruption of syndicates orchestrating organised insurance fraud will lead to improved financial performances.
- VII. Improved financial performances are even more possible with regards to the cost of crime as it is expected that the same syndicates that are active in insurance fraud are also involved in other insurance 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 insurance crimes and claims linked to these.
- VIII. Assist insurers in ensuring compliance with relevant legislation through the management of reporting.
- IX. Protect against positive selection by criminal fraternity, thereby strengthening fraud aversion and prevention strategies

For the insurance industry as a whole, the initiative is important for the following reasons:-

- I. It presents a unique opportunity for the industry to manage a significant risk, the vast majority of which is currently undetected and managed.
- II. It allows insurers to manage a risk that impacts all companies, and which no single company can significantly affect on their own.
- III. It demonstrates that the industry is sensitive to the requirements of the country's fight against crime, and specifically commercial crime.

- IV. It is aligned with government objectives to protect all economic stakeholders from the effects of organised crime.
- V. It will allow the industry to make the case for an effective prosecution response through justice system, by aligning its activity with those of the relevant authorities.
- VI. It will improve PR and credibility within complementary markets e.g. investigations, legal and intermediary.

Therefore, summarising the cost benefit case, the insurance industry will gain the opportunity to effectively manage an annual risk of significant proportions at a cost of significantly less than that amount.

Please refer to the examples of the results of the proof of concept under point 4.

10. Letters of intent

Before contracts are signed, evidence of commitment must be obtained from insurers. A Letter of Intent template will be sent to all SAIA members, as well as IDS members. SAIA members who are not members of IDS and who have indicated a wish to participate in the initiative will need to sign the Letter of Intent and also become members of IDS.

Signed Letters of Intent should be returned to SAIA by end of February 2008.

11. Proposed activities and time frame

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| • Approval by SAIA Board | 18 Feb 2008 |
| • Seconded/identified person/s to implement establishment of ICB identified | March 2008 |
| • Meeting arranged for founder members | March 2008 |
| • Project plan | March 2008 |
| • Technological model developed and implemented | March 2008 |
| • Getting access to identified data bases | IDS March 2008
Others ongoing,
not crucial as
IDS incorporate
limited Unicode
and eNatis data |
| • Setting up of office | March/April 2008 |
| • Appointing staff | March/April 2008 |
| • Additional recruitment drive for founder members | March 2008 |
| • Starting operations | End April/May
2008 |