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Advisers, communities take the fight to insurance crime

Financial and insurance crime is big business in South Africa. To illustrate, investment and life insurance members of the Association for Savings and Investment South Africa (ASISA) detected 8 931 cases of fraud and dishonesty during 2022, preventing around R1.1 billion in potential losses. Almost a third (2 618) of these cases arose in the life insurance space where fraudulent claims totalling R770.5 million were avoided.

Funeral insurance stands out as a hotbed for criminal activity, accounting for just over 73% (1 922) of the life insurance cases. In an article exploring what makes people susceptible to insurance fraud, Glenn Hickling, Head of Legal at BrightRock, noted that economic hardship often pushed individuals to take desperate measures. “Falsifying death certificates for funeral policy claims or withholding crucial health information during application processes are just some examples of the deceit [that accompanies insurance fraud],” he said.

Millions spent to prevent fraud

In an exclusive interview with FAnews, Garth de Klerk, CEO of the Insurance Crime Bureau (ICB) said, insurers were spending millions of Rands on smart systems to detect and prevent fraud, with the key focus being on spotting warning signs in policy administration and policyholder behaviours. “These systems are designed to detect and monitor for individuals who are beneficiaries on multiple policies, or policyholders taking out cover in a variety of geographical areas, as just two examples,” he said.

Insurers and intermediaries must be on the lookout for a diverse set of insurance fraud perpetrators. At one extreme, individual policyholders are pushing the envelope, as evidenced by a recent high-profile murder case. In 2021, Rosemary Ndlovu was sentenced to six concurrent life terms for the insurance fraud-related murders of six people, including her live-in partner and five of her family members. “Ndlovu was getting ready to murder more of her family members, the ICB and law enforcement agencies stopped that process,” De Klerk said.

At the other extreme, criminal syndicates prey on distressed individuals as money or policy mules

to open policies and submit false claims, or worse. The ICB shared an example involving an addiction rehab centre that was helping addicts re-establish their financial profiles. De Klerk explained that the fraudsters helped vulnerable individuals to open bank accounts during which process they also ‘tricked’ them into taking out funeral policies. A sum was deposited into the bank account to ensure premiums were met. No need to guess who was named as the beneficiary on these policies, dear reader.

Murder for financial benefit

In this case, the community picked up on a high number of suspicious deaths in an area, alerting law enforcement who in turn approached the ICB for investigative support. “Upon investigation, we uncovered a syndicate that was involved at the rehab home; they were rehabbing their victims, cleaning them up, starting a financial profile and then conveniently murdering them for the financial benefits under the policies they had taken out,” said De Klerk. The case illustrates how crime and fraud are committed on the back of a legal policy sale.

Vigilance is key for combating insurance fraud. “Safeguarding personal and financial information, refraining from clicking on suspicious links and promptly reporting any signs of identity theft are crucial steps,” noted Hickling. “Moreover, maintaining honesty in dealings with insurance providers is paramount; an insurance contract relies on mutual trust and disclosure, and any deviation from this undermines the very foundation of the agreement.”

Another leading life insurer told FAnews that individuals should be wary of sharing personal information or documentation with third parties, and not assisting third parties in taking out insurance policies or submitting claims. Other common-sense advice is for your clients never to allow anyone to use their personal bank accounts, and never to open bank accounts for someone else to use. Why the concern with protecting personal data?

Impersonation to perfect crime, fraud

Well, it turns out that impersonation is a significant and growing trend in life insurance fraud domestically. Criminal syndicates are increasingly using falsified or stolen identities to take

out life insurance policies, and then producing false death certificates to claim against the same. For local financial services providers, the best defence appears to be strict compliance with so-called KYC (Know Your Customer) protocols.

Another trend in play in the domestic insurance fraud realm is that of manipulating the circumstances of a claim event. This can range from exaggerating the severity of an illness to staging accidents or even committing murder to claim life insurance benefits. Local fraudsters have also been known to collude with medical professionals to falsify death certificates or medical reports.

To combat this, South African insurers are leveraging forensic investigation techniques and collaborating with law enforcement agencies to scrutinise suspicious claims. The use of Artificial Intelligence (AI) and machine learning to detect anomalies in claim patterns and the deployment of dedicated fraud detection units are essential in identifying and preventing such frauds, as are public awareness campaigns and consumer education. And there have been some successes to date.

Signing false death certificates

Aside from the Rosemary case, already mentioned, the local news recently reported on a retired Durban-based doctor receiving an eight-year sentence, wholly suspended for five years, for signing false death certificates without sight of the bodies. These certificates were subsequently used to facilitate multimillion-Rand life insurance claims. P.S., [Fnews.co.za](https://www.fnews.co.za) covered this case in a piece titled *'Crime rampant across insurance disciplines'*, published online on 29 January 2024.

Combating insurance fraud requires close and constant scrutiny across the life insurance value chain. Some contend that fraud could be stopped in its tracks at the underwriting stage if insurers had real-time access to 'red flags' on beneficiaries, life insureds and/or suspicious personal data such as bank accounts, mobile numbers, or physical addresses. De Klerk said the ICB, and its insurance members, are hard at work building up this kind of data but concedes that much of today's insurance fraud is only

picked up reactively, at the claims stage. Commenting specifically on underwriting, the ICB noted that it is not illegal for an individual to take out life policies or funeral policies on another person's life, provided they can prove an insurable interest. "The act of taking insurance is not illegal if it can stand up to the test of insurable interest; however, if you murder that person to claim the benefit you are crossing the line," De Klerk said. Sadly, a criminal syndicate need not actually murder a policyholder to make a grab for an insurance payout.

Manipulating beneficiary banking details

Imagine, for example, if a bad actor manipulates the beneficiary details on policies. There are countless opportunities for so-called beneficiary alterations to be made, especially when policies are being sold to vulnerable members of the community. Insurers are countering this type of fraud by implementing multi-factor authentication for policy changes, alongside regular communication with policyholders to confirm beneficiary details.

The ICB singled out consumer education as the best foil against insurance crime and fraud. Advisers and communities can also serve as important first lines of defence by reporting suspicious activities. There is certainly anecdotal evidence that the bureau's mantra of "see something, say something" is bearing fruit. As for the insurance industry, suggestions include closer collaboration with governmental agencies to verify policyholder identities, and a narrower focus on industrywide data.

Huge spend justified

"Banks and insurers are also spending huge amounts of money in developing human resource skills, upskilling individuals to be better at detecting and preventing fraud," concluded De Klerk. "We are spending a lot of money on community discussions, on training and on ICB and other crime databases to get in front of these criminal syndicates."

It seems these investments are paying off. In its 2023 Annual Report, the ICB contended that over the past 15 years, it has achieved an aggregated insurance crime and fraud 'clawback' on behalf of its members totalling approximately R3.75 billion. ●

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