Life insurers get tough on fraud and dishonesty

INDEPENDENT DISTRIBUTION SERVICES

It is virtually impossible to measure the rand amount lost to South Africa's insurance industry due to fraud and dishonesty. Short-term insurers estimate that as much as one third of all claims paid are questionable. And Hugo van Zyl, CEO of the South African Insurance Crime Bureau (SACIB) says that assuming a fifth of all insurance claims are fraudulent, the industry would lose as much as R7 billion annually.

Those who believe this number to be overstated might consider that the SAICB alone is actively investigating frauds totalling R480 million at present. Meanwhile claims fraud statistics released by the Association for Savings and Investment South Africa (ASISA) put the value of death, disability and funeral claims involving fraudulent documentation and syndicate activity at a whopping R131.7 million in 2011. The total number of claims reported increased from 452 in 2010 to 545 last year. It stands to reason that the identified frauds are just the tip of the iceberg.

The good news, according to Peter Dempsey, deputy CEO of ASISA, is that most of these fraudulent claims were uncovered by life insurers before money was lost. "Life companies are often seen as soft targets by criminals hoping to access benefits through fraudulent means," he says. "But **life companies have put sophisticated fraud detection mechanisms in place to allow for early detection**".

Fraud and dishonesty in the life space

How does one distinguish between fraud and dishonesty in the insurance space? The question is best answered by considering the categories contained in the latest ASISA statistics. The organisation points out that **misrepresentation and material non-disclosure do not involve the criminal intent that is associated with fraud and are therefore classified as dishonest claims.**

Misrepresentation occurs when a **policyholder deliberately provides misleading information to a life insurer**, for example adding someone else's child to a funeral policy and then pretending that it is your child. Material non-disclosure refers to the deliberate **failure of policyholders to disclose information** about a medical or lifestyle condition which is material to the assessment of the risk to be insured. An example of material non-disclosure is when an applicant for life cover omits to mention that he or she participates in dangerous sports. Another example would be not disclosing a serious back injury when applying for disability cover. "**Policyholders resort to misrepresentation and material non-disclosure when hoping to secure lower premiums or to obtain cover without exclusions**," observes Dempsey.

ASISA notes that while fraudulent life industry claims have shown a marked increase, claims involving dishonesty rather than criminal intent have shown an impressive decrease (from R605.6-million in 2010 to R463.6-million in 2011). This is due to a substantial drop in misrepresentation and material non-disclosure across all types of cover.

Dempsey says greater awareness among consumers that misrepresentation and non-disclosure almost always have serious consequences for policyholders and their beneficiaries contributed to the lower number of claims. "**Consumers increasingly realise that life insurers are entitled to declare a policy void if at claims stage it is discovered that critical information was not disclosed,**" he says.
Dempsey says the value of claims declined due to dishonesty and fraud (some R600 million in 2011) seems almost insignificant when compared to the total honest claims paid: "Last year the life industry paid out more than R216.7 billion in benefits to policyholders, beneficiaries, and pension fund members for death and disability claims, maturity pay-outs and pension, annuity and other payments".

Taking the fight to fraudsters

The SAICB – which investigates fraud in the assurance (life, medical, provident and funeral) and insurance (home, content and vehicle) sectors – is on record that a large slice of white collar crime is committed by organised criminal syndicates. Van Zyl advocates a zero tolerance approach to fraud and suggests that industry stakeholders employ leading forensic specialists, apply 'best practice' fraud prevention systems and processes and make use of well-drafted economic crime prevention strategies and confidential whistle-blowing processes in their war against fraud. It seems that both life and short-term insurers have heeded his call, as the following examples show.

Dempsey cites the case of three sisters and a Durban doctor who were recently arrested by the KwaZulu-Natal Commercial Crimes Unit after allegedly attempting to defraud one of the big life insurers. It is alleged that at least two of the sisters took out life cover on a woman who was not even aware of this. After paying the premiums for several months, the sisters had the poor woman declared dead, provided a false death certificate and tried to claim the death benefit. The sisters were arrested when one of them arrived at the life insurers' forensic department in person, demanding that the claim be paid. The life company suspected fraud and was investigating the claim.

Van Zyl has a wealth of examples from the short-term insurance segment. Criminal syndicates go to great lengths to clone the vehicle identifications (VIN and engine numbers) of legitimate vehicles and then apply this identification to stolen cars."There are some vehicles that have been cloned 13 times," he says. "If a vehicle is stolen or a wreck written off in Botswana, the syndicate will gladly clone this vehicle a dozen times, steal vehicles that match this cloned information, and then export these vehicles to countries throughout Southern Africa".

Data sharing is critical

He observed that each of these cloned vehicles ended up being financed and re-insured. A recent example is that of an individual who bought 37 scrapped / written off vehicles in Namibia, brought these wrecks into South Africa, and then stole vehicles to match… The stolen vehicles were then re-exported to Namibia with apparently 'good' papers. "Without data sharing within our industry – **without data quality and quantity – and without data sharing far beyond our industry – we are going to lose the war against criminals and fraud**," concludes Van Zyl.