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A STUDY OF FRAUD INVESTIGATION IN FRAUDULENT INSURANCE CLAIM

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ABSTRACT Insurance Fraud is scariest threat to most of the insurance companies. These companies are facing increasing fraudulent cases of insurance from past few years. These fraudulent cases increase the cost of premium which causes enormous problems to both policy holder and also to insurance companies. Such insurance fraud cases involve unauthorized and unlawful act. Risk management plays a crucial role in insurance industry to counteract these illegal activities. Thus, insurance companies are advised to use these risk managements plan for prevention of insurance fraud. The present study on insurance fraud can be used to analyze risk assessment and fraud pattern also prevention techniques used by organization. The reason of this study is to examine variety of insurance fraud and threat associated with it and formulation of risk management plans to reduce the insurance fraud to smallest possible degree.

KEYWORDS : Insurance Fraud, Risk management, Risk assessment, Fraudulent claims.

INTRODUCTION

Fraud can be defined as an intentional misrepresentation of fact which may cause other people to tolerate losses, mostly a monetary loss. In most cases act of lying is considered as fraud but legally it is just a small element of fraud. Insurance fraud is any action done with the purpose to gain a fraudulent output from an insurance process. Mostly insurance fraud includes complicated financial transactions which are mainly conducted by white collar criminals, and also sometimes by a person having specialized knowledge and criminal intent.

Insurance fraud can be divided as 'soft' or 'hard' fraud. Soft fraud occurs when the honest people made legitimate claims or may list down the fewer number of employees or may misrepresent the work. Hard Fraud occurs when someone intentionally invents claims or fakes any kind of accident.

The basic reason for all insurance fraud is to make a financial profit. Mostly who does such crime taken it as a low-risk task as compared to other classes of crime which also reduces the risk of extended punishment? Because of the lack of investigators in the insurance industry, the number of fraudulent cases is detected is much smaller than the number of acts are actually committed.

Types of Insurance Fraud may include

1. Life Insurance: - It involves faking death to make a financial profit.
2. Health Care Insurance: - It is a process of misrepresentation of information related to health care benefits which include providing fake medical bills, billing for a higher level of services, alteration in claims submission. Most commonly physicians are involved in it.
3. Automobile Fraud: - This is a most common type of insurance fraud which includes fake traffic death or fake collision or may include exaggerated claims for insurance money. Automobile fraud can be ranging from care damage, staged collision, stolen cars, exaggerated claims, car accident etc.
4. Unnecessary medical procedure: - This type of fraud is done by a medical practitioner. If you go to the doctor for hair related problems, the doctor will suggest an order of blood test which has nothing to do with the hair problem, then that can be a form of insurance frauds.
5. Fake death: - Here a person may insure himself or his spouse and after several months he fakes his own death and spouse is paid for his death benefit.

Insurance fraud can occur at any stage of insurance transaction done by the individual applying for insurance, third party claimant, or by policyholders. Fraudulent activities damage the lives of innocent people both directly and indirectly as these frauds increase the cost of the premium.

DATA INTERPRETATION:

Around 9% of revenue losses by insurance companies due to fraudulent insurance claims every year.

TABLE 1 – INSURANCE FRAUD IN 2016

Total Revenue – Premium		Insurance Fraud	
INR Billion	US Billion	INR Billion	US Billion
3500	70	304	6.16

Out of these total insurance fraud 86% are life insurance fraud and 14% are general insurance fraud.

TABLE 2 – COMPARISON OF FRAUD IN LIFE AND NON-LIFE INSURANCE

Insurance Fraud		Percentage	INR Billion
Types of Life Insurance Fraud	86%	261	
1	Misselling	36%	94
2	Fake document	33%	86
3	Others	31%	81
General Insurance	14%	43	
1	Falsification of documents	70%	30
2	Other fraud	30%	13

Source: - India forensic premier organization in forensic accounting education (2012) Annual Anti-fraud conference.

For detection of these fraudulent insurance claims investigator has to depend upon the variety of evidence which may include inquest report, post-mortem report, medical and other bills, the statement given by the witnesses, determining the authenticity of ID-proof and other documents etc. He has to follow the trail of documents to reach a conclusion about the authenticity of the claim.

CASE STUDY

Policyholder supplies misleading information and fraudulent documents in the course of making a valid claim: - Mr. X has come to one of the insurance offices for an insurance policy where he has shown interest in one of the insurance plans. When officials had gone to his home for completion of documents, they came to know that he may not capable of paying such huge insurance amount after seeing his standard of living by keeping in mind that he came directly approaching to insurance office by his own. After investigating the case by an investigator of insurance company they came to know that he had taken same insurance policy from other insurance company and after a year he makes a claim under medication for his organ transplantation. After getting the claim the policy is been cancelled by the insurance company. For a current insurance policy, he has mentioned that he is not suffering from any kind of disease. Later investigator thought he can do the same for this policy also as he has provided misleading information related to health issues the company doesn't provide any kind of insurance to him.

Note- The names and places in the above mentioned case has been changed due to legal circumstances.

CONCLUSIONS

- Insurance companies need to invest more in providing training and education to the fraud investigators so that fraud cases can be restricted.
- Increasing Insurance fraud cases doesn't only increase the cost of insurance companies but also lead to increased premium. Thus insurance companies must have proper risk management framework to minimize the number of fraud.
- Insurance fraud taken as a low-risk task thus done by white-collar criminals on a regular basis. So changes need to be made in laws by providing rigorous punishment to them.
- This study pointed out that insurance fraud can be restricted by formulating proper risk management framework and increment in existing rules and regulations.

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