Application Fraud:
the forgotten frontline battle

by

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Learning objectives

By the end of the webinar, participants will be able to:

➢ identify key legislative provisions relating to the duties at the application stage.
➢ recognise the most common types of application fraud.
➢ implement a strategy to detect and counter application fraud.

Scale of the problem: 2018 figures

➢ A total of 469,000 insurance frauds were "detected" by insurers.

➢ 98,000 were fraudulent claims. 371,000 were dishonest insurance applications.

➢ The number of fraudulent claims detected fell 6% on 2017.

➢ The number of dishonest applications for cover rose by 5%.

"Fraudsters are constantly reinventing themselves and application fraud and liability are areas of growth that we now need to focus on."

Ben Fletcher, Director of the Insurance Fraud Bureau (IFB)

We are going to focus on the following three typical examples of application fraud:

➢ Misrepresentation.

➢ Ghost broking.

➢ Identity.

Misrepresentation

Consumer Insurance (Disclosure and Representations) Act 2012

3 Reasonable care

(1)Whether or not a consumer has taken reasonable care not to make a misrepresentation is to be determined in the light of all the relevant circumstances.

(2) The following are examples of things which may need to be taken into account . . .

(c) how **clear, and** how **specific,** the insurer's questions were . . .

Insurance Act 2015

3 The duty of fair presentation
3(1) Before a contract of insurance is entered into, the insured must make to the insurer a fair presentation of risk.
…
3(4) The disclosure required is as follows …

(a) disclosure of every material circumstance which the insured knows or ought to know, or

(b) failing that, disclosure which gives the insurer sufficient information to put a prudent insurer on notice that it needs to make further enquiries for the purpose of revealing those material circumstances.

➢ A study by Lexis Nexis revealed that a quarter of people believe it is acceptable to disclose inaccurate information to obtain a lower premium.

➢ But remember the duty of utmost good faith works both ways!

➢ Questioning skills are key. Some misrepresentations could be innocent.

➢ Reducing the "cognitive load" is also key and intrinsically linked to questioning techniques.

➢ Use plain language and remove ambiguity.

➢ Avoid multiple questions. More simple and shorter questions are better than one long question.

➢ Add memory prompts: drop-down menus.

➢ Use language that normalises: "When did you last …"

➢ Make misrepresentation harder: seek double-confirmation.

The duty of utmost good faith

- Remember that it works both ways!

- *Carter v Boehm.*

- *Banque Financiere de la Cite S.A. v Westgate Insurance Limited.*

- Avoidance and return of premium.

Ghost broking

- Policies are bought knowingly and unknowingly.

- Public education is key here.

- Some operations are highly organised and sophisticated.

- Anecdotal evidence of a recent surge?

Identity

➢ The risks revolve around taking over identity (theft) and creating new identities.

➢ The industry has too frequently relied on data verification but this not as effective as it may have once been.

➢ There are now a number of technology companies that offer solutions to analyse behaviour during the application process.

➢ Red flags include the following:

➢ **Application fluency**: high level of familiarity with the application process.

➢ **Expert users**: the average customer doesn´t use shortcut and function keys, unlike experienced fraudsters.

➢ **Low data familiarity**: cut and paste of data that should be intuitive.

➢ Behaviour-based identity proofing can be used without introducing friction into the user experience.

What can we do to counter application fraud?

➢ Public education and awareness.

➢ Reviewing our own practice at the application stage.

➢ Analysing behaviour *versus* verifying data (iovation).

➢ CII´s Good Practice Guide: Ghost Broking for Claims Professionals.

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