

GIRO conference and exhibition 2010

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Fraud as an emerging risk

The impact of change in technology

12-15 October 2010

The Fraud Triangle

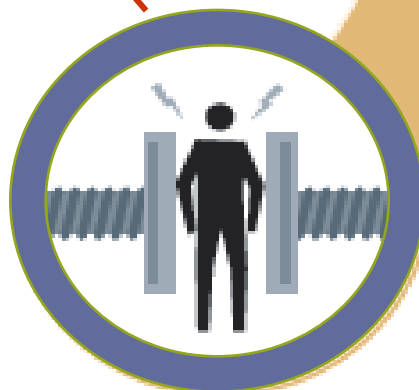
- I don't get paid enough
- The company owes me anyway
- Nobody is getting hurt
- Everyone else is doing it
- Nobody will find out

RATIONALISATION



- I will just do this once
- I need to recoup some of the premium I paid
- It is less than 1p on every policy
- The company can afford it

FORCES ACT
TOGETHER TO
CREATE AN
ENVIRONMENT
FOR FRAUD



PRESSURE/INCENTIVE

- Financial gain: large or small
- Reputational gain
- Reduce pressure to perform
- Reduce job stress
- Malignant narcissism: Psychological gratification



OPPORTUNITY

- Skills to execute the fraud
- Weaknesses to exploit
- Controls that can be overridden
- Partners in crime to help out
- Access to confidential business information

Fraud Triangle in Insurance

Source	Rationalisation	Pressure/Incentive	Opportunity	Example Fraud
Employee / Internal – Theft from company	“The company owes me a raise”	Large debts	Working in claims department	Pays false claims in collusion with accomplice ; steals mass data
Soft – Opportunistic low level crimes	“It’s a large company – it’s not like we’re robbing anyone”	Bit of easy extra cash	Belief genuine claims element can’t be distinguished from fake	Camera stolen and additionally decides to add on ipod as want to get new model
Hard – Organised crime	“Their claims handling is weak – they will never find us out”	Large financial gains	Willing partners in crime with skills to carry out scheme	“Crash for cash” schemes.

Emerging Risk Trends in Financial Services

Pace of Change

Change facilitates crime by creating new opportunities

New technology

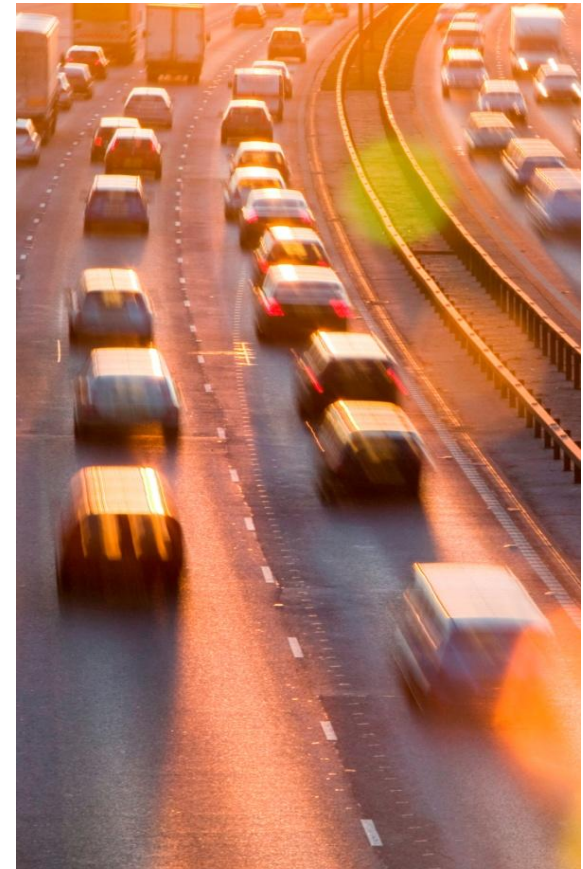
- Heavy targeting of newly launched systems resulting in restrictions that can defeat their purpose

Increase in bust outs / Model obsolescence

- The technology arms race means that institutions can often act quickly once they spot fraud.
- This has resulted in a increase in “bust out” type frauds and much shorter shelf life for detection scoring models

Introduction of new process / product

- Mass behavioural changes so that staff do not understand what is “normal” any more.



Emerging Risk Trends in Financial Services

Specialisation of criminal tasks

The internet has allowed criminals to specialise in particular elements of a crime

- Collection of customer ID information and credentials
- Production online phishing 'toolkits' for use by others
- Finding 'mules' accounts to allow criminals to extract money out of system

Potential increase in crimes being aided by insurance insiders who previously:

- might not have felt the risks justified the rewards
- or did not have the means to make use of information or data they could obtain



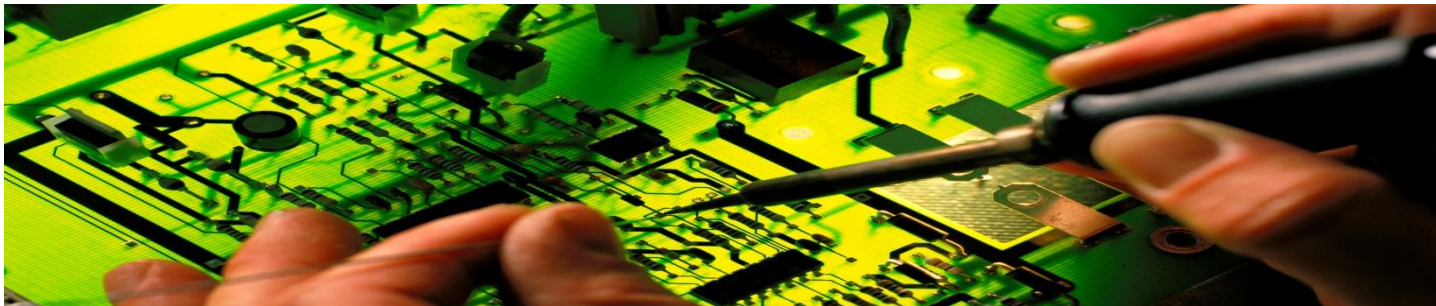
Emerging Risk Trends in Financial Services

Mass data compromises

The electronic storage of information makes mass data compromises an increasing threat

Alteration of the economics of fraud

making it worth while to set up boiler rooms and mine the acquired lists



Insurance case study

- Large number of broken car windscreen claims being fixed by a single firm.
- Investigation showed the firm was fake
- It had simply obtained a large number of policy details that were being exploited

Emerging Risk Trends in Financial Services

Involvement of professionals 3rd party in fraud

There have be a large number of Mortgage fraud cases involving 3rd party professionals colluding

Insurance is also facing particular threats from dishonest 3rd party professionals

- Kickbacks
- Referral fees from brokers
- Embezzlement or theft by trick
- Licence application / misrepresentation
- Accident “management”

Cost verification techniques may be more effective in the long run



Emerging Risk Trends in Financial Services

Targeting of the weakest institutions

The internet allows fraudsters to pass information and techniques between themselves including information about firms defences

- Criminal target the top of the 'best buy' table – shopping for the weakest link
- Heavier financial cost for being the worst in class that are becoming the 'go to' destination for particular types of fraud.

The threshold for minimum adequate level of anti-fraud capability is rising and moving more rapidly

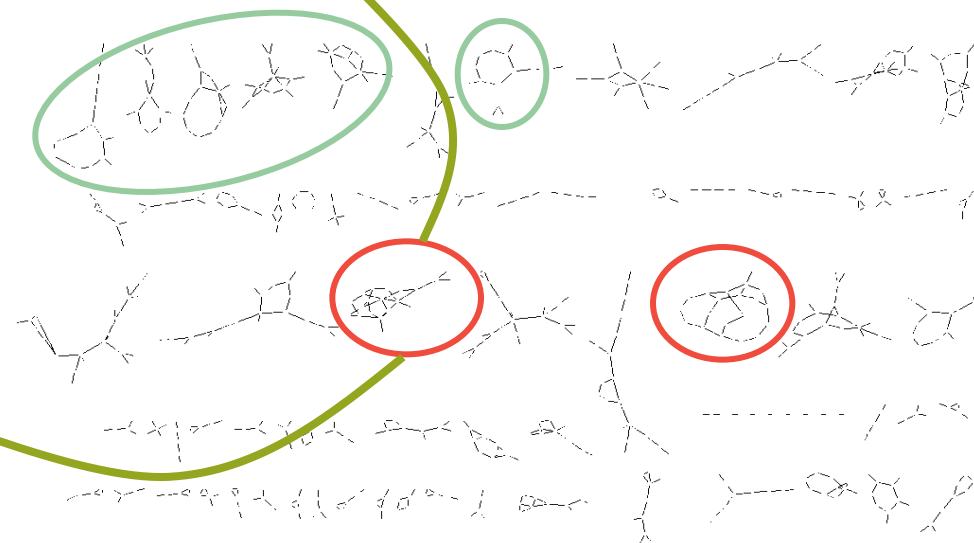
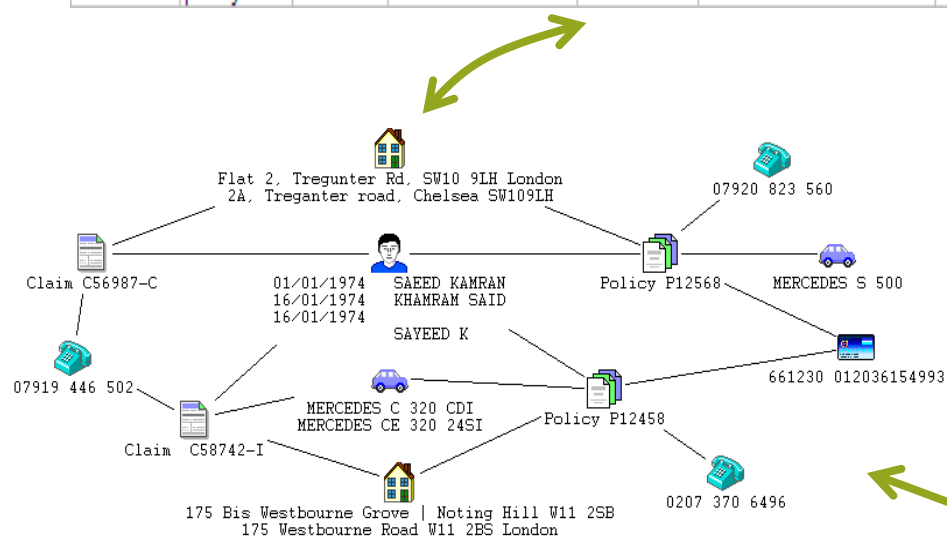


Emerging trends in defences against fraud

Mass Investigative Data Linking

Exciting new social network analysis techniques which can be used to help both prevention and detection...

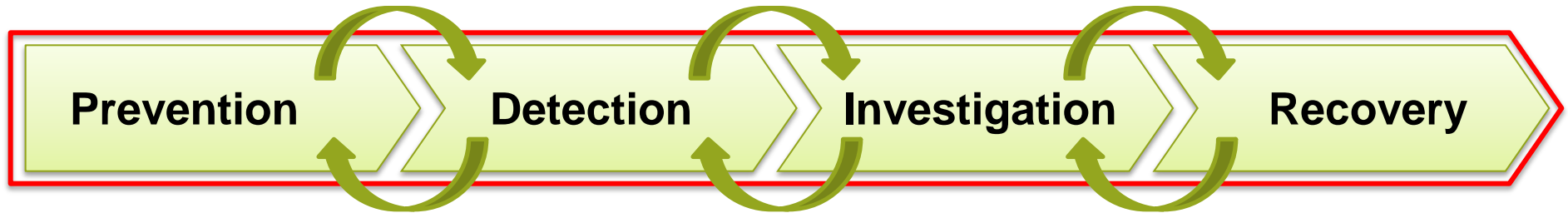
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P12568	Policy	holder	SAEED KAMRAN	01/01/1974	661230 012036154993	07920 823 560	Flat 2, 20 Tregunter Rd, SW10 9LH London	MERCEDES C 320 CDI
C56987-C	Claim	claimant	KHAMRAM SAID	16/01/1974		07919 446 502	2A / 20 ter Treganter road, Chelsea SW109LH	MERCEDES CE 320 24SI
C58742-I	Claim	injured		16/01/1974		07919 446 502	175 Bis Westbourne Grove Noting Hill W11 2SB	
P12458	policy	holder	SAYEED K		661230 012036154993	0207 370 6496	175 Westborne Road W11 2BS London	MERCEDES S 500



○ UNUSUAL ○ HIGH FRAUD PROBABILITY

Emerging trends in defences against fraud

More dynamic and connected anti fraud process



More layered approach

- Risk assessment of customer at the initial purchase stage
- Building risk into pricing

Monitoring

- Tracking employee actions via network traffic sniffing
- Telematics
- Contemporaneous video evidence & Text mining
- Unmanned Aerial Vehicle (UAV)

Highly adaptive fraud scoring

- Changing fraud types / Moving targets
- Feedback and threshold effects
- Rapid predictive model obsolescence

Dynamic risk based handling taking into consideration investigation costs

- New customer acquisition and claims lifecycle

Need to provide a deterrent / prosecute

- Criminals like to get away with it
- Need to consider ease of gathering evidence and prosecuting that vary by fraud type

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