Fraud as an emerging risk
The impact of change in technology
12-15 October 2010
The Fraud Triangle

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

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

**OPPORTUNITY**
- 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
- 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

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

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

Alteration of the economics of fraud making it worth wide 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 been 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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<td>0207 370 6496</td>
<td>175 Westborne Road W11 2BS London</td>
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EXAMPLE ONLY USING ALTERED DATA
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
Contact details

Catherine Barton
Partner
European Actuarial Services

Direct: +44 207 951 5503
Mobile: +44 771 104 8102
cbarton@uk.ey.com

Nicolas Mallison
Director – Fraud Data Analytics
Fraud Investigations & Disputes

Direct: +44 207 951 2750
Mobile: +44 792 082 3560
nmallison@uk.ey.com