

Fraud in the Accelerated World

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Fraud from an Underwriting Perspective

Fraud in Accelerated Underwriting

How much do you think fraud costs the insurance industry each year?



Fraud in Accelerated Underwriting

\$80 BILLION ANNUALLY

Across all lines of insurance

Fun fraud fact: “If insurance crooks formed a company called Fraud, Inc., it would rank in the top 10 percent among the Fortune 500 in yearly revenue (35th overall)”

Source: Coalition Against Insurance Fraud. <http://www.insurancefraud.org/80-billion.htm>

Fraud in Accelerated Underwriting

Fraud in Accelerated Underwriting Can Seem Very Familiar:

- Medical misrepresentations
 - Smoking
 - Clean-sheeting
- Financial misrepresentations
- Criminal fraud (aka: community fraud)
- Paramedical fraud
- Identity fraud
- Jumbo violations (i.e. misrepresentations on total line amendments)

Fraud in Accelerated Underwriting

Certain types of fraud are more prevalent in accelerated underwriting:

- Higher probability of tobacco/nicotine misrepresentation
- Greater risk of misrepresented medical conditions as fewer medical conditions may be asked
- Easier to commit identity fraud



identity

Fraud in Accelerated Underwriting

Combat Accelerated Underwriting Fraud by Looking for Red Flags:

- Application
 - Clean-sheeting
 - Inconsistent information
 - Information that cannot be verified
- Employment
 - P.O. Box for employer
 - Occupation noted as self-employed but without details
- Premium
 - Premium exceeds means
 - Paid by someone other than the insured
 - Premium paid with starter checks, money orders, pre-paid cards
- Other
 - Multiple applications to different companies
 - Agent or examiner located in another state

Fraud in Accelerated Underwriting

Fraud Detection

By show of hands, which fraud detection tool(s) do you find most useful?

- A. Traditional underwriting evidence
- B. Internet Searches
- C. Public records
- D. Reports on producer's business
- E. I do not use any fraud detection tools



Fraud in Accelerated Underwriting

Effective Tools for Combating Fraud:

- Traditional underwriting Evidence
 - Rx histories (including follow-up Rx checks)
 - MIB checking services
 - MVR
 - Credit data
 - Identity verification
- Digital Tools
 - Zillow
 - Good maps
 - Social media
 - Internet searches
- Public Records
 - Tax summaries
 - Government records (4056T)

Fraud in Accelerated Underwriting

What tools are on the horizon?

- Smoker propensity
- Facial analytics
- Wearable devices
- Electronic health records
- Electronic lab records
- Applicant candor
- Credit-based mortality scores (i.e. Transunion's TrueRisk, LexisNexis' Risk Classifier, etc.)

Fraud in Accelerated Underwriting

Any new and innovative tools that your organization is using?

Fraud in Accelerated Underwriting

Regardless of the Tools You Use, Always Trust your Underwriter Instincts!

- Ask the right questions to get the full story (e.g. through underwriting interviews)
- Stand your ground in the face of bullying
- Apply critical thinking and deductive reasoning
- Speak up and seek the opinions of others if something does not seem right

You are a vital part of the first line of defense against fraud!



Questions?

Producer Fraud

Producer Fraud

Over the years there has always been an interest in various forms of risk management:

- Strategic risk
- Compliance risk
- Financial risk
- Operational risk
- Reputational risk

What risk is often ignored?

Producer Fraud



Why is this?

- Fraud detection is complex- Fraud risk is a moving target due to the dynamic nature of insurance.
- People do not want to believe it can happen.

Producer Fraud

Where do you start?

- Perform a fraud risk assessment
- Based on findings, design a framework that defines your company's overall fraud prevention strategy
- Continuously monitor your fraud prevention strategy- What is working? What is not working?
- Training
- Reporting



Producer Fraud

Modifying a fraud risk strategy is especially important prior to a shift in:

- Product design or adding a new product to your product portfolio
- Process(es)
- Method of distribution – What distribution channel best fits the type of product being sold?

An accelerated underwriting program may impact all of these!

Producer Fraud

I think we can all agree that:

Most agents are honest, ethical, trustworthy and want to do what is best for their clients. However, there are a few dishonest individuals, or honest individuals that are driven to dishonest deeds because of certain circumstances in their life.

Cressy's Fraud Triangle



Producer Fraud

What do you think the most common motivation for a producer to commit fraud is?

- Lack of internal controls
- Override of existing controls
- Lack of management oversight
- Product vulnerability
- Untrained or disengaged employees

Producer Fraud

What do you think the most common enabler for a producer to commit fraud is?

- Lack of internal controls
- Override of existing controls
- Lack of management oversight
- Product vulnerability
- Untrained or disengaged employees

Producer Fraud

What types of producer behavior, including fraud, may be seen in an accelerated underwriting program?

- Someone other than the insured; i.e. spouse, family member, producer, completes and e-signs the application.
- Newer producers may believe that no third-party data is pulled on non-med products, leading to the producer misrepresenting health questions, tobacco status, etc. even though the insured may have accurately disclosed such information.
- Adverse selection- Agent shopping around for non-med products to see if the applicant may be approved (red flags- MIB codes (declines), multiple hits on the IAI, etc.).
- Agent is aware of credit-based mortality score being used on certain products and intentionally avoids selling such products- Communication and education to the sales force is key to combatting this activity.

Questions?

Fraud Detection and Reporting

Fraud Detection and Reporting

At what stage does your organization provide its Special Investigations Unit (SIU) with information on products being developed, or information on a shift in its method of distribution?



Fraud Detection and Reporting

Why reinvent the wheel?

Many of your current fraud detection tools will continue to work for an accelerated underwriting program:

- IP address tracking (e-signature process)
- E-mail address tracking (e-signature process)
- Commission pay-out reports
- Back-end audits via attending physician statements (APS's)
- The voice of the customer

A few examples...

Fraud Detection and Reporting

IP address tracking...

Good source to look up IP addresses: <https://whatismyipaddress.com/ip-lookup>

Tracked Events			
IP Address	Timestamp	Action	Packet Key At Time Of Event
24.131.1.83	Sat Nov 25 13:52:55 -0600 2017	create application	
24.131.1.83	Sat Nov 25 13:52:57 -0600 2017	edit application	
24.131.1.83	Mon Dec 04 08:18:53 -0600 2017	edit application	
24.131.1.83	Mon Dec 04 08:28:14 -0600 2017	generate documents	112QQOJV
	Mon Dec 04 08:44:55 -0600 2017	generate policy number	112QQOJV

State: signed

Audit Events

ts	log_time	client_ip_address	action	message	envelope_status
2017-12-04 14:44:47 UTC	2017-12-04T14:43:50.7143744Z	216.203.46.252	Registered	The envelope was created by Fidelity Life Association	created
2017-12-04 14:44:47 UTC	2017-12-04T14:43:55.9688679Z	24.131.1.83	Opened	[documents:(Fraud Notice; Application Form; Effective Date Notice Form; HIPAA Form)]	sent
2017-12-04 14:44:47 UTC	2017-12-04T14:44:00.2501323Z	24.131.1.83	Viewed In-Session	viewed the envelope in a session hosted by Fidelity Life Association, A Legal Reserve Life Insurance Company [documents:(Fraud Notice; Application Form; Effective Date Notice Form; HIPAA Form)]	delivered
2017-12-04 14:44:47 UTC	2017-12-04T14:44:19.7659152Z	24.131.1.83	Signed	signed the envelope	completed

*Note: Certain information has been redacted for privacy reasons.

Fraud Detection and Reporting

E-mail address tracking...



AppDate	PolicyReference	Product	ApplicantName	emailaddress	BeneType	relationship	BeneficiaryName	BeneAdd	AgentName	AgentNumber	AgtAdd
1/5/2018 13:11	0100*****	Term	Nancy ****	John.Doe@hotmail.com	Primary	Daughter	Amaya ****	**** La Fayette Georgia 30***	John Doe	***	Sunny, California
1/5/2018 15:18	0100*****	Whole Life	Sarah ****	John.Doe@hotmail.com	Primary	Spouse	Reginald ****	**** TAMPA Florida 33***	John Doe	***	Sunny, California
1/5/2018 15:14	0100*****	Term	Sandra ****	John.Doe@hotmail.com	Primary	Daughter	Tamara ****	**** Ft Lauderdale Florida 3****	John Doe	***	Sunny, California
1/5/2018 15:53	0100*****	Term	Andrea ****	Terry****@gmail.com	Primary	Mother	Terry *****	18***** Las Vegas Nevada 8****	John Doe	***	Sunny, California
1/5/2018 15:53	0100*****	Whole Life	Aiden ****	Terry****@gmail.com	Primary	Mother	Terry *****	18***** Las Vegas Nevada 8****	John Doe	***	Sunny, California
1/5/2018 15:53	0100*****	Whole Life	Dan ****	Terry****@gmail.com	Primary	Mother	Terry *****	18***** Las Vegas Nevada 8****	John Doe	***	Sunny, California
1/5/2018 17:29	0100*****	Term	Winnie *****	bridg*****@aol.com	Primary	Sister	Bridget Co****	3189 *** Tennessee 38118	Jane Doe	***	Misty, Seattle
1/5/2018 17:29	0100*****	Term	Winnie *****	bridg*****@aol.com	Primary	Sister	Bridget Co****	3189 *** Tennessee 38118	Jane Doe	***	Misty, Seattle



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Fraud Detection and Reporting

Back-end audits via APS's...

The following cases went through an accelerated underwriting process (underwriting rules-based engine, Rx, MIB and MVR):

- Case #1: Application date- 11/27/17. Clean application, case approved preferred. Back-end audit via APS revealed that as recently as 11/20/2017 the insured had been treated for Chronic Kidney Disease (CKD), Stage II.
- Case #2: Application date- 12/11/17. Clean application, case approved preferred. Back-end audit via APS revealed that as recently as 09/21/17 the insured was smoking 1 ppd.
- Case #3: Application date- 2/17/2017. Clean application, case approved preferred. Back-end audit via APS revealed that as recently as 01/17/17 the insured had a history of hyperglycemia and had been referred to cardiology due to chest pain and shortness of breath.

Fraud Detection and Reporting

What steps are taken prior to reporting fraud?

- Identify red flags on a case to determine if fraud is suspected
- Generate referral to SIU
- SIU initiates investigation of suspected fraud
- After a comprehensive fraud investigation has been completed, the SIU follows up with key stakeholders to provide findings on the case and what action is to be taken (agent termination for cause, rescission, etc.).

Is the process complete?

Fraud Detection and Reporting

Now that the investigation is complete...

- Determine which jurisdictions have fraud reporting requirements.
- Mandatory reporting requirements around fraudulent activities fall into the following high-level categories:
 - Suspicion (2 jurisdictions)
 - Belief or knowledge of (25 jurisdictions)
 - Reasonable good-faith belief (11 jurisdictions)
 - Alleged fraud or “fraud” (3 jurisdictions)
 - Multiple jurisdictions either do not have mandatory reporting provisions or make reporting optional.



*Note: Check with your organization’s Legal/Compliance Department to obtain a list of all jurisdictions and their fraud reporting requirements. The ACLI has a great all-states survey on this topic.

Fraud Detection and Reporting

What should be reported?

The fraud report that is filed should contain everything compiled through the fraud investigation, including but not limited to:



- Investigation notes
- Interview notes
- The files reviewed (copies of applicable policies, underwriting information, claims documentation, premium payments, etc.)
- All correspondence generated
- Trend analysis
- Final report, which includes the determination made based on the weight of the information obtained through the investigation.

Fraud Detection and Reporting

Where should I report fraud?

- The NAIC's Online Fraud Reporting System (OFRS), found at: <https://eapps.naic.org/ofrs/>
- The National Insurance Crime Bureau, found at: https://nicb.org/speak_up
- Coalition Against Insurance Fraud (CAIF), found at: www.insurancefraud.org
- The FCC, found at: <https://www.fcc.gov/>
- White Collar Crime Unit (in appropriate jurisdiction)
- State's Attorney's Office (in appropriate jurisdiction)

Questions?

Fraud Detection Systems and the Use of Machine Learning (ML)

Fraud Detection Systems and the Use of ML

What is Machine Learning?

“Machine learning is the science of getting computers to learn and act like humans do, and improve their learning over time in autonomous fashion, by feeding them data and information in the form of observations and real-world interactions.”

ML is the practice of using algorithms to parse data, learn from such data, and then made a determination or prediction about something (i.e. potential fraud).

Reference:

Fagalla, D. (2018, September 16). *What is Machine Learning?* Retrieved from:
<https://www.techemergence.com/what-is-machine-learning/>

Fraud Detection Systems and the Use of ML

Audience feedback:

1. Does your organization have a centralized fraud reporting system?
2. Does your organization use ML to detect potential fraud?



Fraud Detection Systems and the Use of ML

Problems the SIU may be faced with:

- Multiple application, new business and administration systems
- Multiple fraud reports (such as the previous examples), or lack of fraud reporting capabilities
- One person, or a small team, reviewing many reports from various sources
- Issues with data integrity (bad data converted from legacy systems, etc.)
- Taking a reactive approach to combating fraud

Fraud Detection Systems and the Use of ML

How can the use of a fraud detection system be beneficial?

- A centralized system that has been integrated with multiple systems to present potential fraud cases (based on pre-defined logic) to the SIU.
- The SIU can review cases from a work queue and flag cases as fraudulent, highly suspicious for fraud, or not fraudulent (this data can be fed into a ML model).



Fraud Detection Systems and the Use of ML

What approach can be taken to use ML?

- Hypothesize: Understand the why of the problem, leveraging interpretable machine learning (IML) use cases. Should additional data be pursued?
- Analyze: Consider what data is available, what data is missing and what data is bad data/can be removed.
- Compute: Draft and iteratively adjust the model(s) to best fit the data, and derive maximum insight from underlying patterns.
- Engage: Design an experience for the user group. Is the information pushed, pulled, periodic, integrated?
- Learn: Consider desired confidence thresholds and adjust accordingly. Leverage additional data to further refine results.

Fraud Detection Systems and the Use of ML

The approach taken to use ML in fraud detection and prevention may vary depending on the data available and your organization's fraud prevention strategy.

My thoughts: What approach might we take at Fidelity Life? What are examples of test cases that may be used?



Questions?

Thank you!