

The fraud squad

Who needs government anyway? **Sophie Dilley** takes a look at some new initiatives to clamp down on illegal claims activity

Insurance fraud, whether it be conducted through organised crime syndicates or by a random punter taking a chance, would appear to be on the rise.

The Insurance Fraud Bureau (IFB) has accused fraudsters of 'gambling with the lives of UK motorists' and costing honest policy holders nearly £400 million every year, while some recent Ipsos MORI research suggests that 1 in 12 of us would consider taking part in a fraudulent claim if we thought we could get away with it.

What is clear is that the frequency of third party injury (TPI) claims continues to increase despite an overall drop in road accident injuries, according to the latest report from the Institute and Faculty of Actuaries.

Even though there was a 20% decrease in the number of injuries reported to the police between 2006 and 2011, the number of TPI claims over the same period increased by 40%.

The average 'small' TPI claim during this period was in the region of £8,000, suggesting whiplash-type injuries, and there is overwhelming evidence supporting a change in patterns of claiming behaviour.

No doubt there are damn lies in between some of the statistics, but there seems little doubt that a significant proportion of small TPI claims are being made as a result of dishonest activity.

Crash-for-cash

The crash-for-cash phenomenon sees criminal gangs deliberately causing crashes with unwitting motorists or faking accidents in order to make a bogus insurance claim. The accidents fall into one of three categories: staged, induced and ghost incidents. A staged collision could see two vehicles, both in the hands of criminals, deliberately crashed together, usually well hidden from the public eye. Sometimes a sledgehammer may even be used to mimic the effects of a genuine crash. A typical induced accident scenario forces an innocent motorist to become the 'at fault' driver. The miscreant generally pulls in front of a targeted vehicle then brakes hard, causing the driver behind to crash into his car's rear. Sometimes brakelights are even disabled to ensure there is no chance of the driver stopping in time, and often two or more vehicles work in tandem to make the crash scenario appear more convincing. Finally, there are the ghost accidents – paper-based scams involving fabricated claims for incidents that didn't happen in vehicles that might never have existed.

Stories abound from victims of induced accidents who have witnessed an uninjured, lone fraudster driving off in an undamaged car – only to receive at a later date a claim against their insurance for the cost of a recovery vehicle and replacement car hire as well as for whiplash injuries to multiple passengers.

Who are the real victims?

Crash-for-cash is not a victimless crime. The profits of these duplicitous dealings are used to finance other illicit activities that have serious consequences for society, including drug-dealing, firearms and money-laundering. According to DCI Dave Wood, head of the Insurance Fraud Enforcement Department, a dedicated police unit established last year to tackle insurance fraud across the UK, it is a crime that this country can ill-afford, "putting innocent drivers at risk on our roads and leaving honest policyholders out of pocket."

Results of an independent survey undertaken by Ipsos MORI as part of the IFB's crash-for-cash report showed that even though three-quarters of those surveyed view insurance fraud as a serious problem and are concerned about both public safety and rising insurance premiums, there is still a significant proportion (around 8%) who would consider taking part in insurance fraud for financial gain. This is perhaps not surprising when you consider that more than half the population think it is unlikely that a crash-for-cash fraudster would be caught.

The webs of deceit are tangled and run very deep, often involving both blue and white collar workers as well as vulnerable members of society recruited on the promise that they stand to make a fast buck or two. Organised crime rings extend way beyond the drivers and middlemen responsible for staging crashes. The supply chain includes claimants that submit fake injury claims and professionals who have been coerced into producing what appear to be genuine injury claims. Networks of professional enablers include doctors, lawyers, recovery companies, car hire organisations and bodyshops. For every corrupt claims management company that has persuaded a member of the local community to allow a vehicle to be used in a staged accident there is a crooked motor engineer writing a false report, for damages that have not occurred, to a vehicle that has not been inspected.

Taking a tough stance

Claims payouts are not classed as taxable income and hence the investigation of fraudulent activity in this area attracts no interest from HMRC. Nor are they particularly newsworthy. However, the public perception that criminals are unlikely to be caught is inaccurate and the insurance industry is going to great lengths to tackle the issue head-on and uncover and dismantle scams across the UK.

The IFB was set up in 2006 to clamp down on organised insurance fraud and protect consumers from its effects. At any point in time it typically has between 30 and 40 criminal gangs under investigation, and the IFB's activity has led to the dismantling of several fraud rings across the UK. Last year a landmark prison sentence of over seven years was handed down to a crash-for-cash conspirator, sending a clear indication that this kind of fraud will not be tolerated.

Insurers invest about £200 million a year in counter-fraud activity, with 2012 being a seminal year in the fight against fraud. The industry-funded IFED has been up and running for over a year now and made over 200 arrests in its first nine months of operation. In addition, the Insurance Fraud Register which was launched in September 2012 provides the first cross-sector register of known fraudsters.

The weight of public opinion is behind the insurance industry, with more than half the population agreeing that the penalties for involvement in insurance fraud should be more severe and recommending prison sentences, while 46% would advocate a driving ban. According to Ipsos MORI's research, 23% thought that blacklisting from insurance and other financial services was a suitable punishment. In the last 3 years, nearly 9,000 cases reports of insurance fraud have been made to Cheatline, the IFB's free and confidential helpline powered by Crimestoppers which enables members of the public to report fraud anonymously, 365 days of the year by phone or online.

New initiatives

Not surprisingly, the majority of new initiatives to tackle insurance fraud centre on the use of information technology.

For example, leading commercial law firm Hill Dickinson has introduced a new fraud risk profiling model which risk-assesses and scores individual motor claims and the claimants within them. The model allocates points to multiple risk factors and Hill Dickinson Fraud Unit (HDFU) can then advise on claims that appear to be highly suspect and warrant further investigation. The approach enables insurer clients to adapt their own benchmark to meet their own risk parameters. Contrary to the more traditional approach to fraud screening using a system of red, amber and green flags, the new approach delivers a significantly lower false positive ratio and demands a significantly lower level of human intervention. The

model enables a single high-risk person to be identified, thus streamlining any resultant investigation and reducing the claims life cycle.

Chris Hallett, director of intel and complex fraud, explains: "We sit on a database called NETfoil which captures the third party side of the fence – the big accident management companies and the big credit hire operators. We also capture a smaller amount from the more traditional side of the fence, our insurance clients."

It is the third party aspect that makes NETfoil unique, says Hallett: "Because every other insurance database, counter-fraud or otherwise, only looks at insurance industry data". While Hallett is swift to note that there is no one silver bullet to stop fraud, he is certain that a collaborative approach will always be helpful: "It doesn't matter how much the Government lays down legislation and the insurance industry improves its own position, I don't think you'll ever stamp down fraud at all. What you want to do is make it as hard as possible for the fraudster to do it."

For Derek McCann, UK motor technical claims manager at Zurich, credit hire fraud is a serious problem, with cases of credit hire-only staged accidents – where only the credit hire aspect is claimed for, and not personal injury – having increased by a factor of four in the last few years. Zurich's new bespoke software system allows any links between claims to be identified, such as different addresses that share the same mobile phone number – a common feature for fraud gangs.

"We operate a zero-tolerance fraud strategy – so if we've got the evidence, we'll fight every fraudulent case," says McCann. "Every team within motor has its own separate red flag fraud indicators – from our own first response team through to our accidental damage, third party teams, and of course our credit hire teams. If any of these teams spot a certain combination of indicators, they refer directly to the dedicated fraud teams at each site."

McCann also cites early notification as essential in tackling fraud. "We have had many instances where a policy holder has been in a staged accident and can't remember details such as how many passengers were in the vehicle in front. The more details they can give us, the better we can investigate the claim and protect [against] ghost passenger claims."

On the opposite side of the fraud spectrum, CRIF Decision Solutions offers customers real-time access to anti-fraud vehicle and identity check tools, helping to weed out cases of opportunistic fraud. CRIF's UK Data Hub benefits from agreements with two of the leading information providers in the UK: HPI for vehicle identification information – including details on drivers, policy holders and individuals – and Tracesmart, for UK identity check and consumer-profiling solutions. The UK Data Hub opens up a content-rich source of consumer intelligence data on 40 million records and 27 million linked addresses, incorporating data on birth and death records, passport verification, landline and mobile number checks, with the possibility of linking all electricity bills to customer address and meter, irrespective of supplier. Moreover, critical information such as vehicle identification and individual records (including bankruptcy information) are also available in less than two seconds without leaving a footprint, and required data can be combined into one message.

CRIF director Sara Costantini believes that the sharp increase in identity, personal injury and vehicle fraud in the UK makes the Data Hub an invaluable tool to support fraud management: "The ease and speed at which information can now be accessed will definitely make a positive impact on our clients' businesses and their operational decisions, enabling them to protect their honest customers from the financial effect of fraud." ●

Further reading

1. Crash for Cash: Putting the Brakes on Fraud