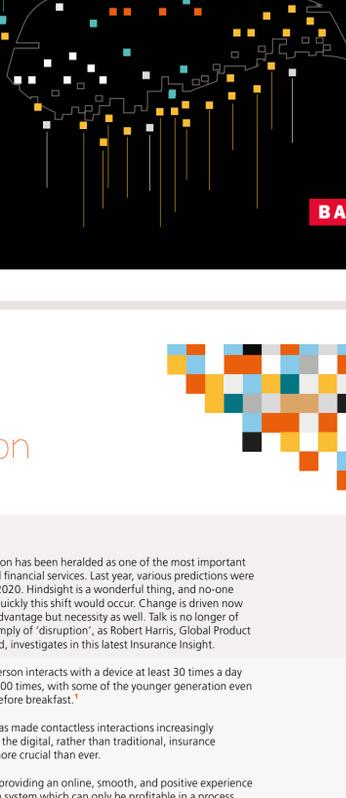


# Defeating the digital fraudsters

INSURANCE INSIGHTS



BAE SYSTEMS

## Introduction

For some time digitalisation has been heralded as one of the most important changes in insurance and financial services. A longer year, various predictions were made as to its impact in 2020. Hindsight is a wonderful thing, and no-one ever imagined just how quickly this shift would occur. Change is driven now not just by competitive advantage but necessity as well. Talk is no longer of 'digital disruption' but simply of 'disruption', as Robert Harris, Global Product Manager, Insurance Fraud, investigates in this latest Insurance Insight.

In Europe, the average person interacts with a device at least 30 times a day and smartphones up to 200 times, with some of the younger generation even exceeding this number before breakfast.<sup>1</sup>

The beginning of 2020 has made contactless interactions increasingly important, so prioritising the digital, rather than traditional, insurance customer experience is more crucial than ever.

For insurers this involves providing an online, smooth, and positive experience for good customers – in a system which can only be profitable in a process safeguarded from fraudsters. Indeed, by going digital, McKinsey has estimated that a large auto insurer could more than double its profitability over five years.<sup>2</sup> This bold prediction is based on analysis that includes a significant increase in customer satisfaction, improved claims adjustment expenses, and a reduction in fraud.

Customers are ready for digital insurance  
According to a recent non-life survey by PwC across 16 countries, two-thirds of consumers would be willing to have a sensor attached to their car or home, provided that the end result is a reduction in premium. This number increases to 76% for 25–34 year-olds.<sup>3</sup>

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## Successful frauds are self-propagating and thrive in troubled times

Criminals target weaknesses, and in a digital world trends can spread far faster than before, so the early detection of new patterns and scams is critical.

History tells us that in times of economic downturn, the likelihood of fraud and crime increases. As seen in 2008, typically honest customers can resort to atypical, almost desperate behaviours in times of crisis. With some, for example, seeking insurance payouts that they may feel they are 'due' after years of claim-free premium payments. For more information on this topic, see the recent blog by Dennis Toomey, Global Director, Counter Fraud and Analytics Insurance Solutions, BAE Systems.

At BAE Systems we are well-drilled in crisis response across financial services and beyond. Across many insurance lines, including motor and property, the number of claims has currently dropped, which could mean good news for profitability. However, unfortunately we can still expect a growth in dishonest behaviours.

<sup>1</sup> Digitalisation of life – and wallets (Burak Ilgioglu, Contactless World)  
<sup>2</sup> Digital disruption in Insurance: cutting through the noise (McKinsey)  
<sup>3</sup> Insurance 2020 – the digital prize: taking customer connection to a new level (PwC)  
<sup>4</sup> Innovation research: fraudsters increasingly leveraging mobile devices for schemes (TransUnion)

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## Here are a few predictions from our insurance fraud team:



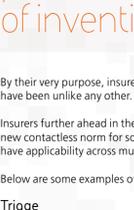
### Motor

- We can expect to see a proportionally larger number of suspicious thefts and fires of vehicles owned under credit. This increase may be even greater in households with more than two vehicles.
- An increase in opportunistic whiplash type claims that target gaps in an insurer's ability to conduct face-to-face interviews and examinations
- An increase in online insurance fraud related activity on the deep/dark web – including staged accidents, vehicle arson, thefts etc.



### Home

- An increase in suspicious home and garage fires particularly those that include expensive equipment or are put out without fire services
- A sudden policy increase of contents value, especially if this can be linked to income reduction
- Claims that could have been made under a personal plan but are submitted via a company so that they are less likely to be challenged
- The mysterious disappearance of scheduled items (such as jewellery)



### Medical

- Fraud rings targeting motor vehicle accidents and worker compensation claims against companies that are likely to go bankrupt. For insurers, there is a likelihood that it will be much more difficult to investigate or get access to the necessary records and people to find out who really happened
- Claims from clinics that are actually closed
- Desk or home injuries caused when working from home but with reportedly inadequate health and safety checks

## Virtualising investigations and prosecutions – necessity is the mother of invention

By their very purpose, insurers are used to dealing with catastrophes. However, the COVID-19 crisis and responses to-date have been unlike any other.

Insurers further ahead in their digital transformation are likely to perform better in the coming months, particularly if the new contactless norm for society remains firmly in place. In such times we often see pioneering ideas emerge, which can have applicability across multiple sectors.

Below are some examples of impactful innovation, which have propelled the industry forwards (in places) in recent months:

### Triage

When claims are notified by telephone at first notification of loss, the information collected is often quite basic. For some claims, in-person interviews and site inspections have, until recently, been common practice to thoroughly validate a case, but to manage an equivalent contactless investigation requires the serious consideration of additional tools.

Voice analytics, for example, can provide accurate transcriptions of the telephone conversation and can also help identify that the speaker is who they say they are, and even whether their vocal behaviour is in any way suspicious. Geospatial mapping technology or satellite imagery can also be used to help determine liability, look for witnesses, and get a clear view of the accident or loss location.

## Special Investigative Units (SIU)

Amongst SIU teams a new way of working is emerging. It has suddenly become more problematic, if not impossible, for teams to conduct at-the-scene investigations and interviews, as well as rely on independent reports such as medical examinations or home and garage inspections.

In the short-term this could result in insurers being unable to deny fraudulent claims, especially in those countries where courts have either not yet developed a virtual capability or are dealing with a significant backlog.

Digital technology that uniquely identifies photos and invoices – including where they were taken and if they have been tampered with, is an example of where digitalisation can both plug the gap left by a lack of face-to-face contact, but also increase automation and reduce costs that could actually deliver a better investigation result more cheaply and efficiently.

## Striking the digitalisation balance

From first notification of loss through to prosecution, digitalisation is both a friend and a foe to insurers.

On the one hand, new technologies can certainly help provide fraudsters with the means with which to commit fraud, but on the other, digitalisation can also be (and is) a force for propelling the insurance industry forwards. Indeed, the use of digital technologies is essential for the contactless society which we now find ourselves living and operating in.

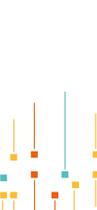
Keeping good customers happy with effective and seamless customer experiences, while finding innovative ways of fighting fraudsters, is always going to be a fine balancing act, and it's one that gets more complicated every day.

For more information about how the Insurance team at BAE Systems can help, get in touch.

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## About the author:



Robert Harris, Global Product Manager, Insurance Fraud, BAE Systems Applied Intelligence

With an in-depth knowledge of the insurance fraud industry, and a track record of working closely with customers, Robert is the Global Product Manager within the BAE Systems Insurance Fraud team.

Robert has a deep knowledge in the sector. Whether launching new solutions, or helping BAE Systems customers to maximise the value from mature ones, he has a keen commercial eye and a conviction to enable innovation.

### Recommended reading:

- **[LEARN]** about Insurance Fraud solutions from BAE Systems
- **[WATCH]** our customer success stories in action
- **[EXPLORE]** insurance fraud trends in 2020
- **[LISTEN]** to Matthew Smith, Coalition Against Insurance Fraud, in his podcast about insurance fraud risk and opportunity
- **[READ]** why insurance fraud thrives in a crisis, in this blog by Dennis Toomey, Global Director, Counter Fraud Analytics and Insurance Solutions at BAE Systems

### References:

- This is what economy class could look like post COVID-19** (Seher Asaf, Business Traveller)
- The first virtual trial in the commercial court: Stewarts secures continuation of trial despite COVID-19** (Stewarts)
- The virtual court** (Stephen Twist, Stephen Twist's Barrister Blog)
- Malaysia moves to Virtual Court hearings during Covid-19** (Yun Xuan Poon, Gov Insider)
- Claims management: taking a determined stand against insurance fraud** (McKinsey & Company)
- Communications in the time of COVID-19: delivering SMARTER digital conversations just became more critical** (James Brown, SMART Communications)

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