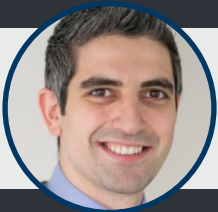


Tackling opportunistic fraud in touchless claims



Interview with Dan Gumpright



Global Insurance Product Manager, Dan Gumpright, at BAE Systems discusses the impact on the tendency of insured individuals to commit fraud with the move to low touch and touchless claims in Property & Casualty insurance.

Q. Why do you believe touchless claims could have an impact on insurance fraud?

Some of it comes down to human nature: people are more willing to lie – if they think there is no impact on others. They're also more likely to take something that they're not entitled to if they think they're owed something. Remove human interaction from a claim process, and people are more likely to believe they're lying to a faceless corporation. Add to the fact that most people don't need to claim and therefore might start to think that their premiums never show a 'return' and we get to a point where customers begin to wrongly imagine they're simply taking what's owed to them.

Nobody wants to openly admit to a **willingness to commit insurance fraud**

The team at the Center for Advanced Hindsight (CAH) at Duke University where Dan Ariely is a Director conducted some social experiments in to why ordinary, normally honest people cheat. In one of these experiments a vending machine was wired to return both food and the customer's money. On average, people only took three free items, but they could have emptied the machine. The justification for this was that they had been ripped off by vending machines in the past and were "restoring the balance". To add some element of social acceptability to the dishonesty, people would also go and grab their friends to get some free food.

Insurance is just like that intentionally broken vending machine: you only get cash back if you make a claim. In a touchless claims environment, the limited human interaction is likely to have similar outcomes to those found in the CAH experiments.

Ariely, coincidentally, is also a stakeholder in Lemonade Inc. the peer-to-peer insurance company famous for paying a claim in 3 seconds. Lemonade is one of a growing number of start-ups in the insurance market, offering a different customer experience that is forcing traditional insurers to rethink their claims processes.

Q. In a touchless claims environment, why are you concerned about a potential increase in opportunistic as opposed to organised fraud?

The assumption is always that organised fraud will continue to grow. But in a touchless claims environment I believe the relative threat of opportunistic fraud will have a significant impact on insurers.

A rise in fraud has always followed soaring premiums and distrust by the general public of the insurance industry. Research from law firm Keoghs warns of a large rise in opportunistic fraud, calculating the proportion of opportunistic claims doubling in two years from 21% in 2014 to 41%¹.

We've also seen a five-fold increase in travel insurance claims in the UK since 2013, by insurance industry measurements².

¹ <https://keoghs.co.uk/keoghs-insight/news-and-events/keoghs-research-warns-of-large-rise-in-opportunistic-insurance-fraud>

² <https://www.gov.uk/government/news/crackdown-on-fake-holiday-sickness-claims>

At a recent conference, I asked the audience if they'd ever committed insurance fraud. Luckily nobody raised their hand. I then asked if anyone had inflated a claim. Nobody raised their hand, but there were quite a few chuckles and a couple of hastily-stifled acknowledgements. Nobody wants to openly admit to a willingness to commit insurance fraud, or inflating their claim and often simply raising the question itself can make people think twice about whether it's appropriate behaviour.

Q. Insurers have responded to falling customer satisfaction by increasing the number of avenues to continually communicate with their customers. Isn't that more important than the potentially increased impact of opportunistic fraud?

Online tools, apps and chatbots all allow insurance customers to submit claims quickly and easily. It's also great for insurers: lower processing costs and improved customer satisfaction often follow. Many customers no longer want to deal with a live person and expect everything to happen at the click of a button. More touch points between insurers and customers is a positive thing for the industry.

As mentioned previously it is generally accepted that organised fraud will rise as a result of the touchless claims environment. But ignoring the effect of reduced human interaction and its impact on opportunistic fraud would be particularly unwise, especially with profitability already on the line and fraud on the rise. Based on the research at the CAH, customers are more likely to lie when there's limited human interaction in the process.

Q. You touched upon technology in your previous answer. How else do you think this will affect the touchless claims process?

The new interactions and vast quantities of data have the potential to create noise. Insurers are being overwhelmed by data from IoT devices, dashcam videos for crash evidence, multitudes of third-party data and more. Data is valuable for fraud detection, but only if used wisely. Trends are changing fast. MOs are changing faster.

Amongst all this, it's increasingly important that you retain genuine customers and provide them with a good, fast customer experience. Smart detection is going to be a fundamental part of the process going forward. Detection models – for organised and opportunistic fraud – need regular updates, in some cases on a daily basis. Continuous learning, Machine Learning and AI integration with your fraud detection solution will ensure that your genuine customers' claims, key to profitability, are dealt with swiftly and fraudsters stopped before they even get a chance to make a fraudulent claim.

Q. With faster claim resolution is it sufficient to only look at the point of claim for fraud detection? What else do insurers need to do?

When speaking to insurance company leadership teams it's clear that they no longer view detection at the point of claim as sufficient. The goal for insurers is to prevent fraud all the way from the point of underwriting, quote and policy inception. We can't just detect it when it happens. In a touchless claims environment, and with failures in pay-and-chase, up front fraud detection is required.

With more sophisticated and early fraud detection technology and processes in place, such as early profile identification at and before policy inception, detecting early and swiftly without disrupting the customer experience is possible. Don't let technology be the bad guy.

The upcoming move to low-touch and touchless claims calls for a far more sophisticated fraud detection approach with earlier risk profiling – at the point of policy inception, quote as well as point of claim. Fraud detection technologies such as Social Network Analytics and the convergence of this with big data and machine learning will be fundamental in identifying fraud earlier, and how these trends will change over time.

To find out more about how BAE Systems can help you detect insurance fraud, visit:
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