



# INSURANCE FRAUD REPORT

2020



# Introduction

Rapid and sweeping change in how insurers do business — and fight fraud — were well underway before COVID-19 erupted across the world. The pandemic has accelerated an already dizzying pace.

AI and digitizing the insurance chain brings remarkable new potential to benefit insurance consumers. Yet fraudsters inevitably work to exploit such emerging new system gaps.

In this time like no other, expect to see a significant and extended surge of scams. We know fraud fighters are remarkably resilient. AI-driven fraud detection, in tandem with seasoned investigators and anti-fraud efforts, is poised to deliver greater value than ever — to insurers and policyholders alike.

Much uncertainty remains. Digital vulnerabilities, data quality, equally resilient fraudsters. We stay ahead of fraud through bold and innovative leadership. Not fearing the future but capitalizing on our best resources and people to guide us forward.



**Coalition Against  
Insurance Fraud**



*Matthew J. Smith, Esq.  
Executive Director,  
Coalition Against Insurance Fraud*

## By the numbers

**443**

insurance  
professionals took  
part in our survey

**52**

countries  
represented  
worldwide

**8**

out of 10  
fraud-fighting  
priority

**18%**

of claims  
suspected as  
fraudulent

**75%**

saw an increased  
workload due to  
COVID-19



# The impacts of COVID-19

From the moment news of COVID-19 started spreading, insurance carriers knew there would be a significant business impact. Although there is room left for further investigations, we tried to summarize the impact of the pandemic on insurance as well as possible.

In our survey two years ago, 60% of respondents said they saw an increase in fraud. This theme continues, accelerated this year by the effects of COVID-19.

It makes sense that the increase in digital processes opens the door a bit wider to fraud.

*In the blog below, our colleague Martyn Griffiths explains what we've learned from previous crisis on the rise of insurance fraud.*

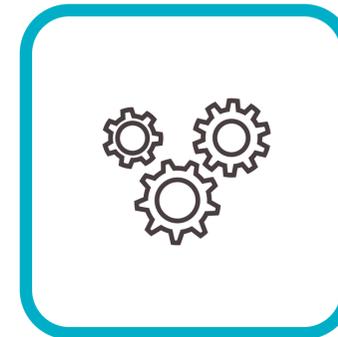
Blog:

**FIRE**

Is Never A Gentle Master.



## Top 3 impacts carriers felt from COVID:



Increased workload



Fewer inspections due to remote working



Increase in suspected and proven fraud

### Top 3 pandemic fraud schemes:



Staged accidents  
and vehicle thefts



Procedure billing  
or phantom services



Fake accidents  
occurring at homes

### The question now is, what are carriers doing about it?

COVID-19 forced nearly two thirds of all organizations to focus more on digitalization. Almost half had a focus on reducing costs, and a third actively increased their fraud checks.



Nearly two thirds now focus on digitalization



Nearly half focused on reducing costs



One third actively increased fraud checks

*For more insights about this topic, check out our COVID-19 resources below.*

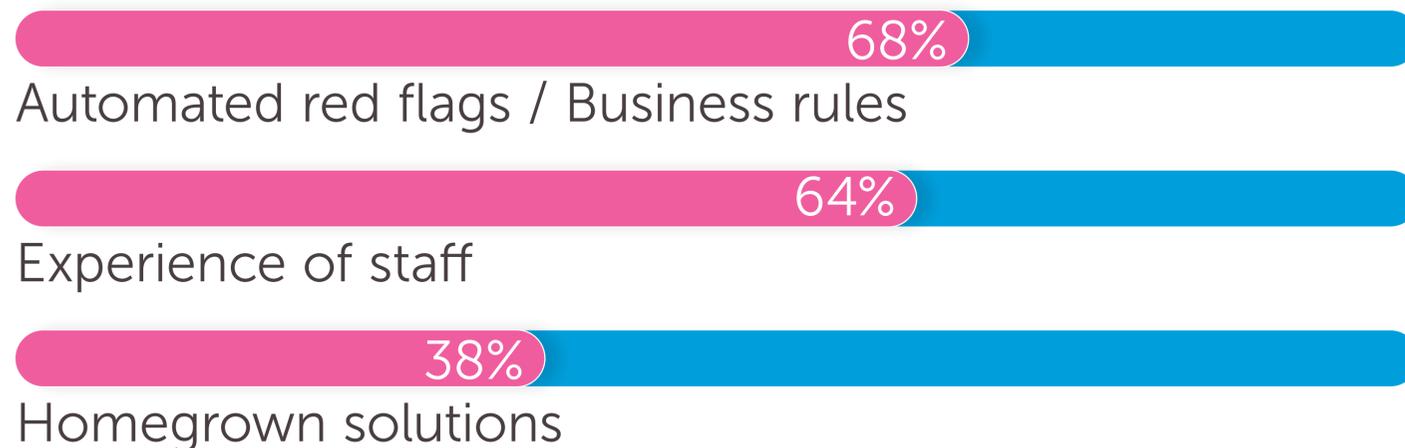


# Fraud detection during COVID-19

Seeing a rise in fraud and wanting to reduce costs goes hand in hand. 43% of respondents were forced to reduce the cost of their operations as a result of the pandemic. Nearly half accelerated their efforts toward digitalization. 1 in 5 want to leverage additional data to profile risks.

Preventing fraud is good for the business. As suggested by [McKinsey research](#), success depends on the ability to deeply enable a digital way of working. Low-risk claims can be put on a fast track in order to provide sincere customers with a moment of magic when it matters most.

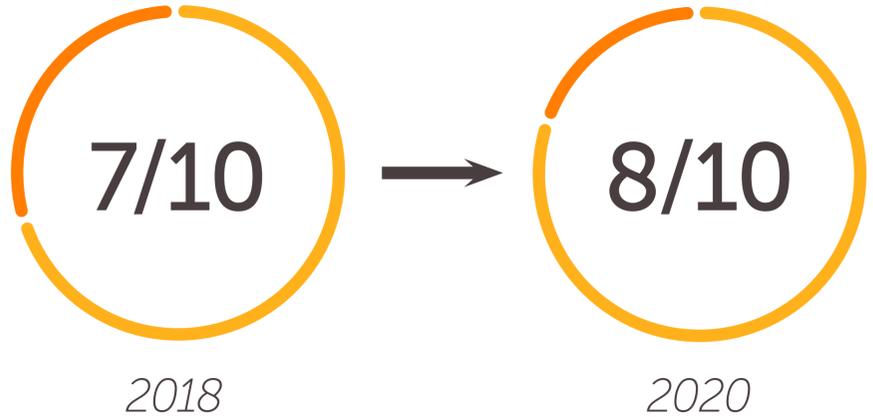
## Which solutions does your organization currently use to detect fraud?



*"Success depends on the ability to deeply enable a digital way of working."  
-McKinsey*

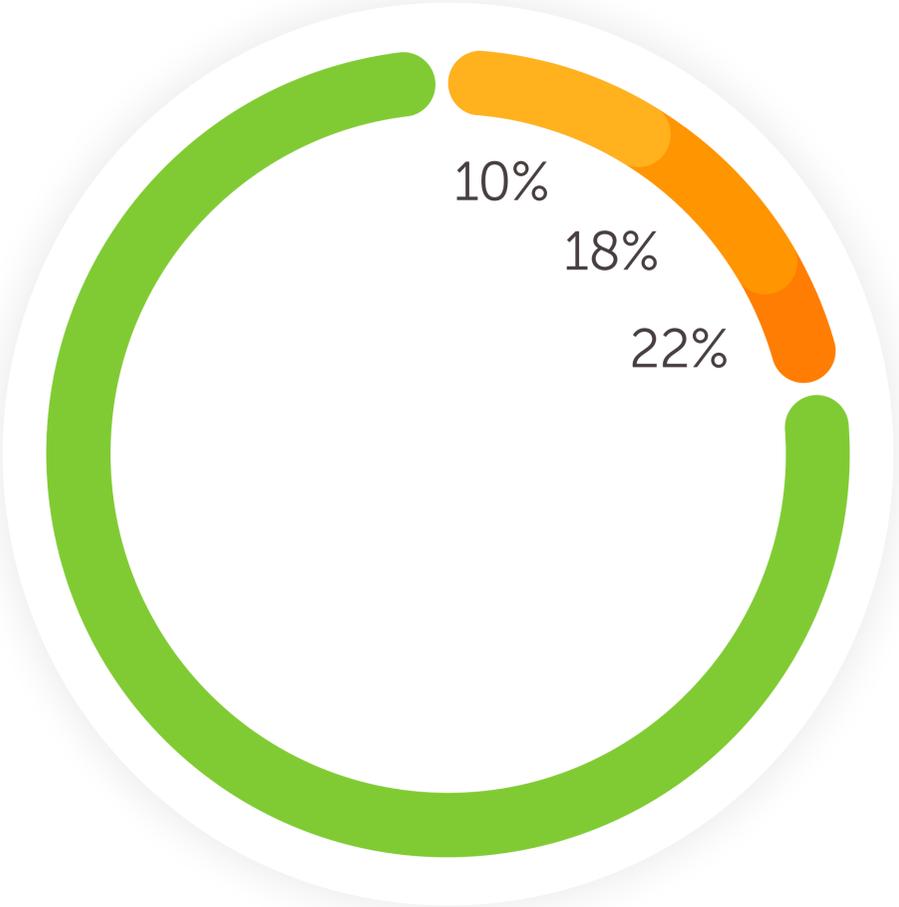
The desire to move toward digitalized and straight-through processes is not yet met with action. Many respondents are still relying on the gut feeling of their staff and other manual methods for preventing and predicting fraud.

Good news: the desire to fight fraud is getting stronger. In our past studies, respondents gave it a priority of 7/10. This year we're inching closer to 8/10.



Exactly how much fraud impacts the industry is always hard to pinpoint. The industry generally agrees fraud accounts for about 10% of all claims cost – and so do the respondents of this year's survey. Nearly three quarters believe 10% or more claims contain an element of fraud, inflation or misrepresentation.

**What percentage of claims do you estimate contain an element of fraud, inflation or misrepresentation?**



- Legitimate  
claims
- Industry  
average
- Survey  
average
- IASIU  
average

*Most industry professionals believe 10% of all claims contain an element of fraud. At the 2019 IASIU conference, investigators believed it to be 22%. This year's survey yielded an average of 18%.*

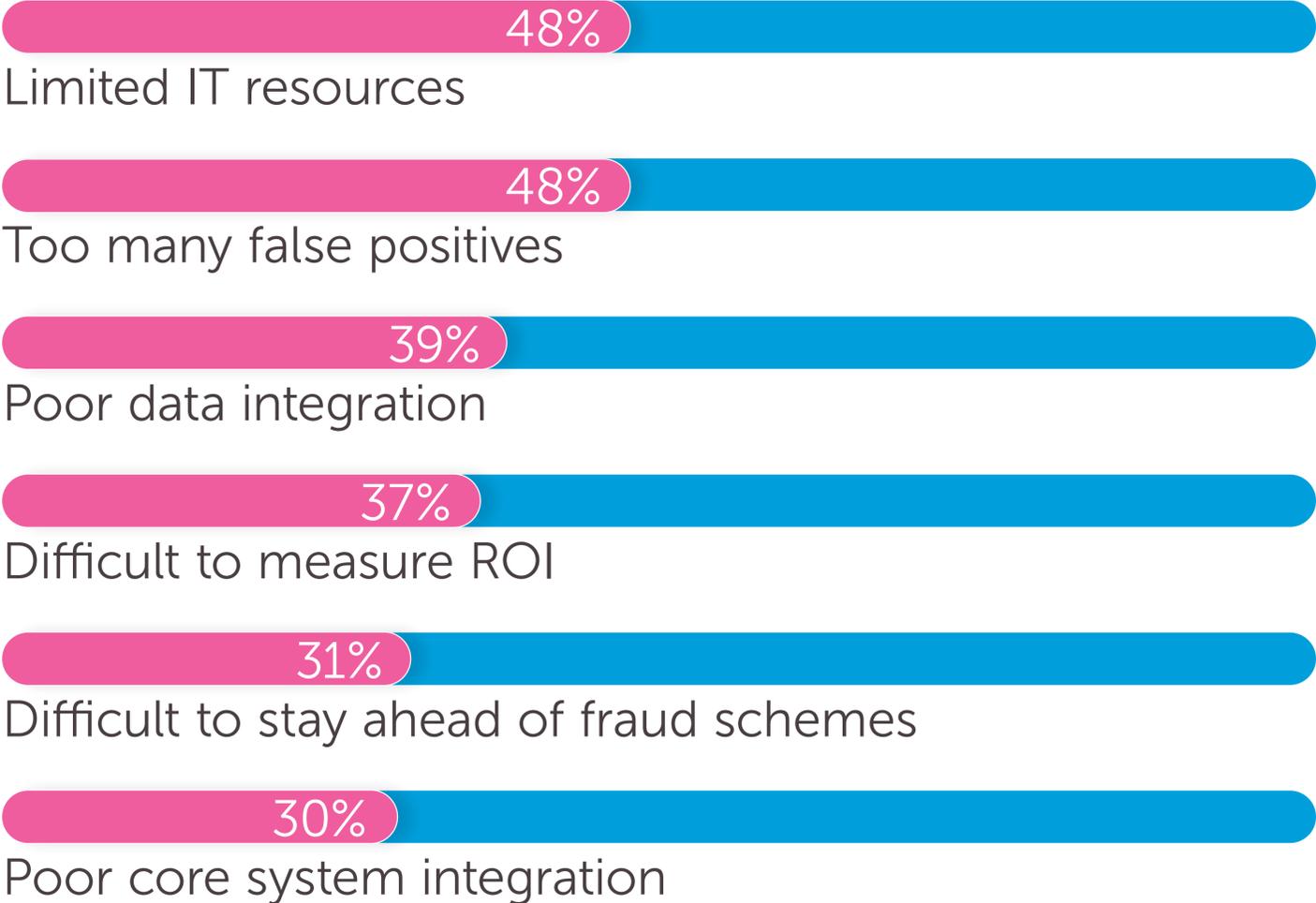
# Challenges

Less than half the respondents shared a challenge that might prevent them from implementing fraud detection software. Still, topics like poor data integration, a lack of IT resources or the fear of false positives are weighing on carriers' minds.



Fortunately, many realize that these issues are easily mitigated, and once a system goes live their fears are replaced with unexpected benefits.

## What challenges do you see in implementing fraud detection software?



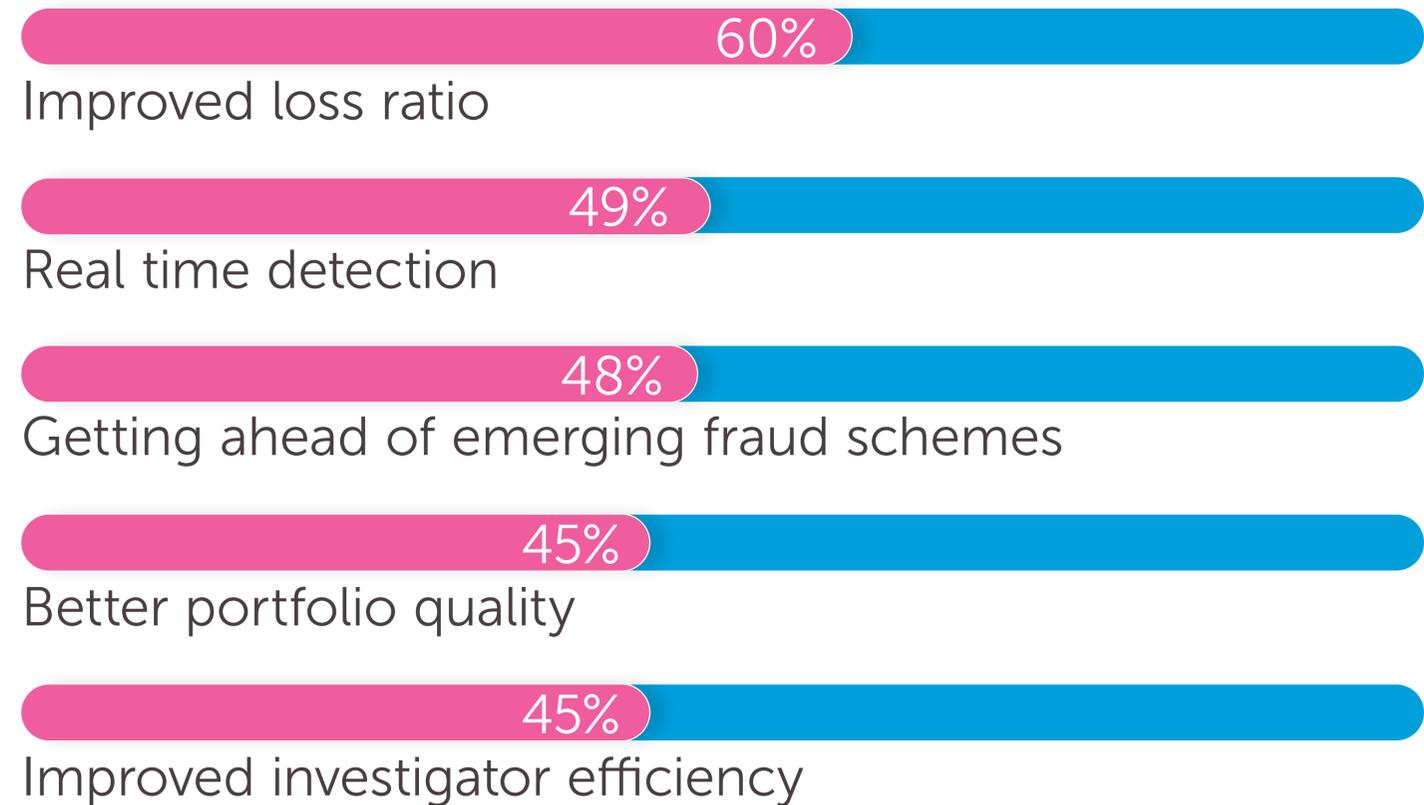
# Benefits

Overcoming these challenges is worth the effort. Eliminating fraud has a clear benefit to the loss ratio, and it's the top reason our respondents are willing to take on new initiatives.



Evaluating claims in real time affords better customer service, which turns moments of misery into moments of magic. Screening incoming customers in real time offers a better experience, increased loyalty and a higher quality book of business.

## What benefits do you see in implementing fraud detection software?



# Underwriting Renaissance

Did COVID kick off an underwriting renaissance? This year nearly half of all carriers are starting to re-think, or better yet enact, new underwriting standards. Not a single underwriting initiative was put on hold (while plenty of other projects were), and, compared to our previous survey, we see an increase in fraud awareness at the beginning of the policy lifecycle.

## Top 3 impacts carriers felt from COVID:



Enabled agent or policyholder self-service



Introduced new underwriting standards



Saw an increased workload

*Read this blog by Pat Speer about the evolving world of fraud detection:*

The evolving world of fraud detection in underwriting



## Top 3 fraud fighting challenges:

- **Internal data quality**
- **Data protection and privacy**
- **Inadequate access to external data**

All three point to a carrier allowing bad risks into their profile. Most carriers are looking at internal claim and policy history data, previous fraud cases and known fraud lists. Yet less than half check against loss information or even payment behavior, two key indicators of financial distress and propensity to commit fraud.

# Fraud-fighting culture

More than anything else, carriers believe the use of automated fraud detection tools is the key to improving their fraud-fighting efforts. This could be lost to competing priorities. In our 2016 report, only 3% reported a lack of C-level commitment. That number has held steady at over 10% from 2018 to 2020.

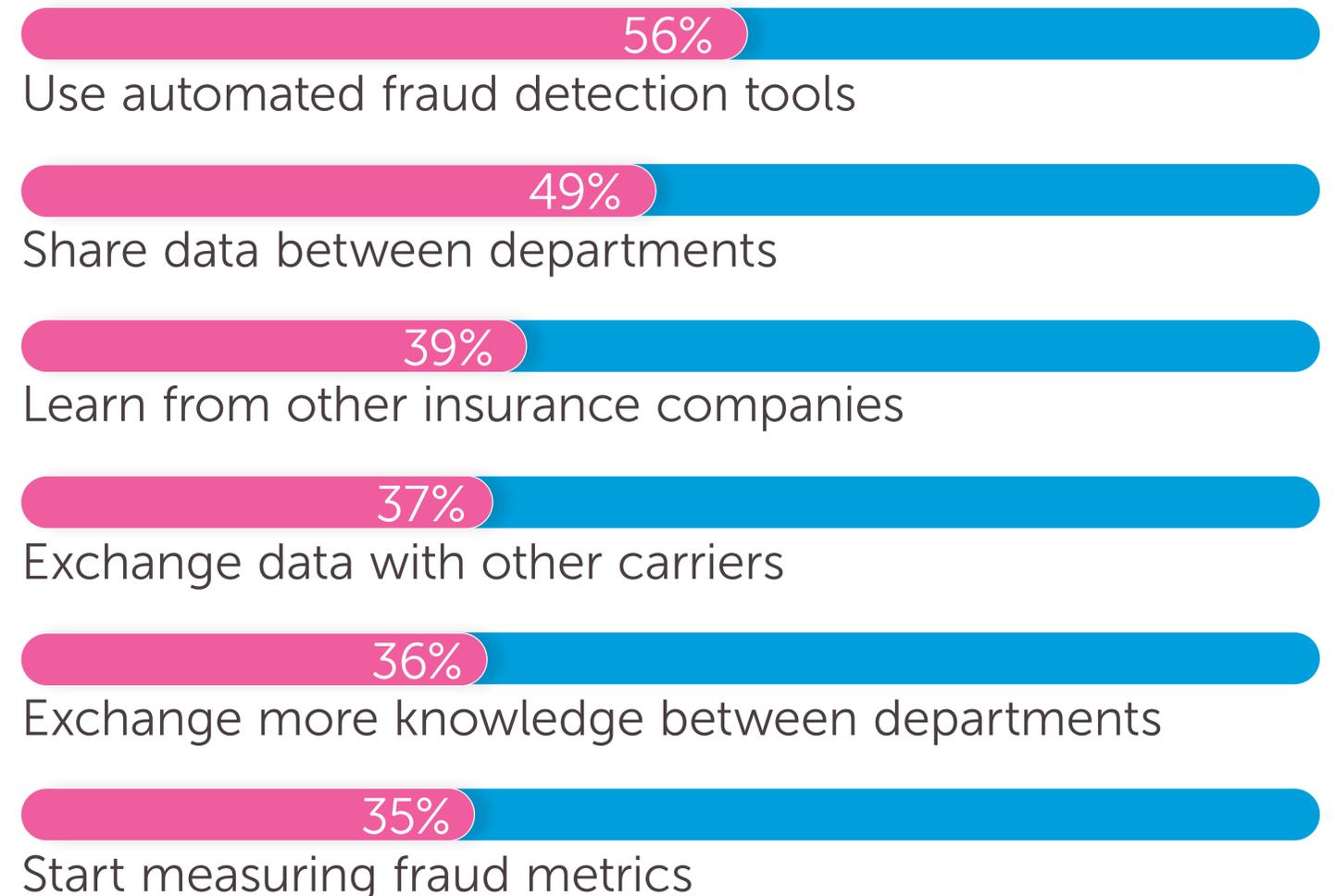
In the quest toward honest insurance, exchanging data and learnings with other carriers remains a global desire. Rapidly changing fraud schemes keep a third of our respondents up at night.

*"Fighting fraud is not a strategic competitive advantage. It's the right thing to do. And you should start it today."  
- Marty Ellingsworth, Senior Analyst, Celent.*



**The insurance fraud detection  
BUILD VS. BUY DILEMMA**  
*Key elements to make a well informed decision*

## How would you like to see your organization improve its fraud-fighting efforts?



# Data, data, data

Carriers are starting to realize the importance of sharing data between departments, which alone contributes to a huge lift in spotting fraud. Similarly, 36% feel they need to exchange more data between departments.

Surprisingly, over a third of respondents say they are not measuring fraud metrics. In this case, what you don't know can in fact hurt you.

Speaking of what you don't know... data becomes the top challenge in effectively fighting fraud. Unfortunately, not much has changed – these themes have remained consistent since our first fraud survey in 2016.

## Top 3 challenges in fighting fraud:



1. Internal data quality
2. Data protection and privacy
3. Inadequate access to external data



1. Internal data quality
2. Inadequate access to external data
3. Cooperation with other insurers



1. Data protection and privacy
2. Inadequate access to external data
3. Internal data quality



*Over a third of respondents say they are not measuring fraud metrics.*

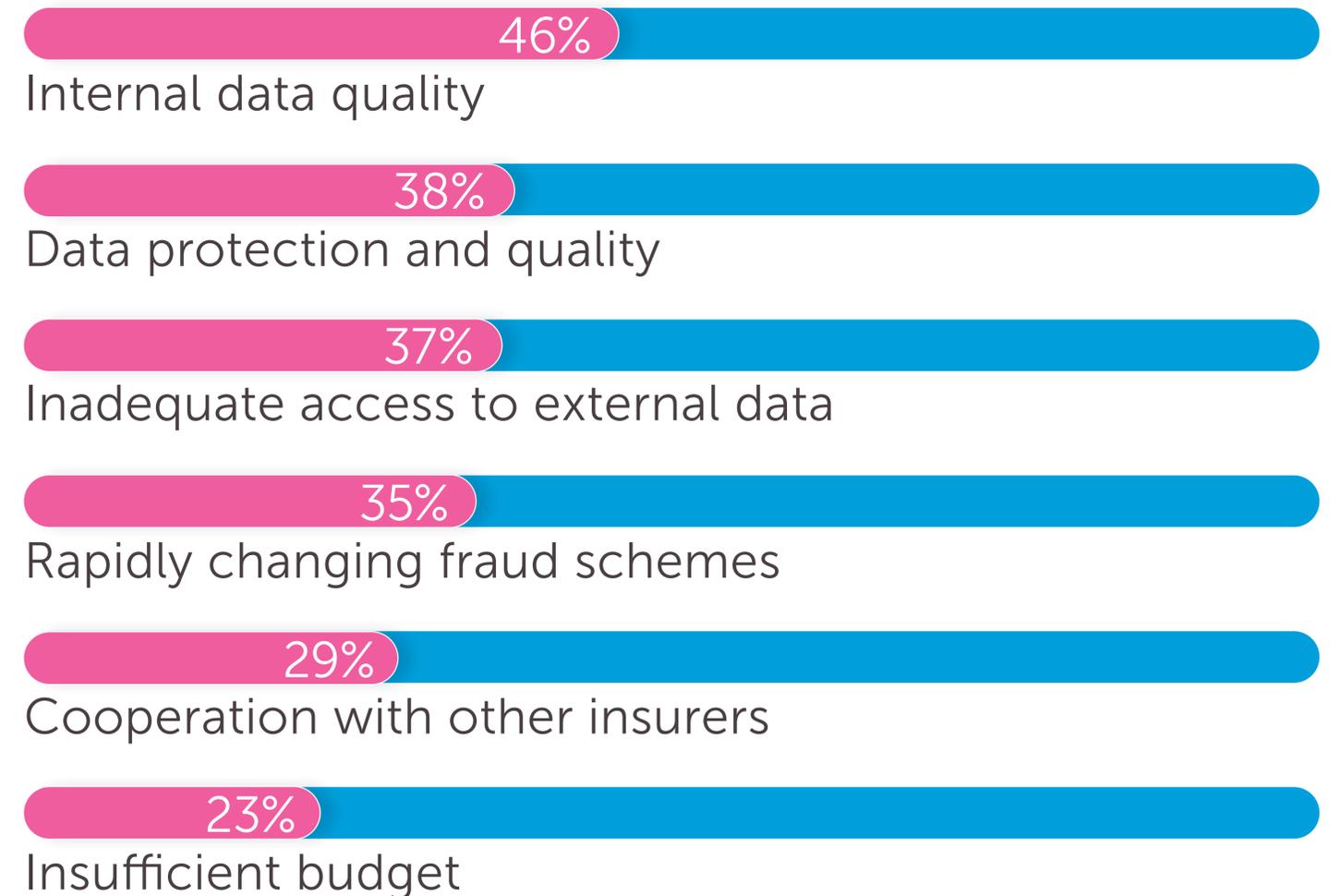
# Using social media to combat fraud

In a data-driven world, carriers are struggling to connect the dots. While there is much buzz about social media, not a single respondent cited using it in their current fight against fraud.



Armed only with knowledge from their own business – and often their own business *unit* – many carriers are struggling to keep up with emerging fraud trends, schemes and tactics. Historically, fraud fighting was not a top organizational priority.

## What are your organization's biggest challenges in effectively responding to fraud?



# Conclusion

Together with insurers we eliminate fraud and make insurance more honest. Because we strongly believe in fair premiums, for everyone across the globe.

We often recognize that people take insurance for granted. At FRISS, we want to remind everyone how important the insurance industry is in our business and personal environment. Insurance powers most of the incredible things we achieve in life. That is why we believe **insurance is a beautiful thing**.



*Jeroen Morrenhof,  
CEO and Co-Founder*



# About FRISS

At FRISS we are 100% focused on automated fraud and risk detection for P&C insurance companies worldwide. Our AI-powered detection solutions for underwriting, claims and SIU help 175+ insurers grow their business. We detect fraud, mitigate risks and support digital transformation. Insurers go live within 4 months, realize up to 10 times ROI and 80% increase in straight through processing of policy application and claims.

FRISS solutions help lower loss ratios, enable profitable portfolio growth, and improve the customer experience. For more information, visit [friss.com](https://friss.com).



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