NAIC Antifraud (D) Task Force

American Academy of Actuaries
November 18, 2024

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About the Academy

- The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.
- The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit:

www.actuary.org

Issue Brief

- "Insurance Fraud: Impacts on Premiums, Claim Costs, and the Public"

- Intended Audience: Risk and insurance professionals including regulators and actuaries.

Issue Brief

- Published by the Property and Casualty Committee on Equity and Fairness (PCCEF) of the Academy.
- Drafting group made up of property and casualty actuaries practicing as consultants and insurance company employees.

Issue Brief

- Why did we publish this paper?
  - Insurance fraud is a pervasive public policy issue.
  - It impacts availability and affordability.
  - There is the potential for uneven impacts across population demographics.
  - To examine the question whether increased awareness among actuaries can benefit the fight against insurance fraud.

Issue Brief—Reliances

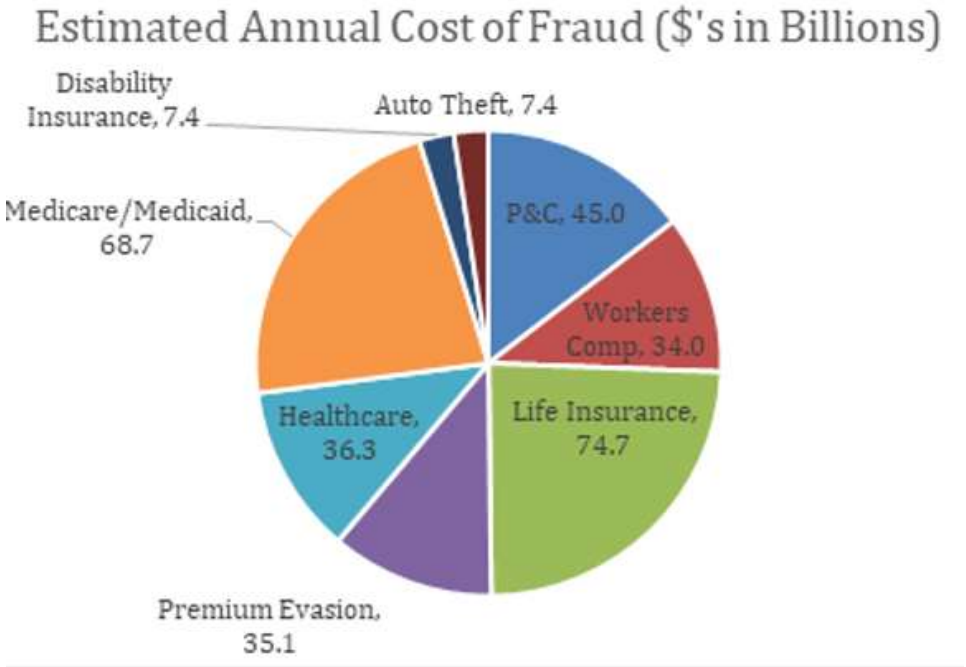
We have relied upon NAIC material and data from the Coalition Against Insurance Fraud.

Insurance Fraud Definition

Per NAIC

- Insurance fraud can be committed by an insurance company, agent, adjuster, or consumer.
- It can occur during the process of buying, using, selling, or underwriting insurance.
- Insurance fraud includes:
  - individuals committing fraud against consumers, and
  - individuals committing fraud against insurance companies.
- Fraud not only inflicts extra costs on insurance companies, but it also financially impacts consumers and businesses.

Fraud Financial Impact



The Coalition Against Insurance Fraud estimates $308 billion per year.

P&C, W.C., and Auto premium evasion combined equal to roughly $90 billion

$90 billion on approx. $700B premium

12% or more of all premiums go to fraud.

This impacts different parts of our society unequally.

https://insurancefraud.org/wp-content/uploads/The-Impact-of-Insurance-Fraud-on-the-U.S.-Economy-Report-2022-8.26.2022.pdf

P&C Insurance Fraud: Categories

- Claim Fraud: Making false or exaggerated claims to an insurer.
- Premium Fraud: Intentionally understating exposure to pay lower premium to an insurer.
- Third Party Fraud: Non-claimants overstating the cost of services provided to resolve the claims, or providing unneeded services and billing the insurer.
- Insider fraud/agent fraud: An agent or insurance company employees participate in a scheme that defrauds the insurer.

P&C Claim Fraud: Common Types

- Staged Auto Accidents: Deliberate collisions for inflated claims.
- Inflated Property Claims: Overstating property value for larger settlements.
- Arson-for-Profit: Deliberately setting fire to property for insurance payouts.
- Slip-and-Fall Scams: Feigning injuries for unwarranted compensation.
- Workers' Compensation Fraud: Exaggerating injuries or claiming non-existent ailments.

Impact of Fraud on Different Groups

- Affordability issues: Higher premiums affect all consumers, especially those struggling with costs.
- Consumers with cultural/language barriers: Targets for unknowingly participating in fraud due to unfamiliarity.
- Vulnerable or unsuspecting individuals: Potential harm to innocent bystanders, exploitation in fraudulent schemes.

Role of Actuaries

Academy members are sought after globally for their insights and ability to apply analytics to solve insurance and risk management problems.

Identification of Suspicious Claims

- Judgement of claims adjusters: If claims adjusters suspect something is wrong with a case, they make referrals to the Special Investigations Unit (SIU).
- Check-list approach: Data from incoming claims is compared against set criteria. If a criterion (often called a "flag") corresponds to the claim, it is referred to the SIU.
- A computer model, developed internally or externally, creates a fraud score for claims and claims above a predetermined threshold are referred to the SIU.

What Do Actuaries Consider?

- What proportion of claims are referred to the SIU and what criteria led to their referral?
- What proportion of those claims referred to SIU resulted in prevention of paying fraudulent claims?
  - How many people who committed insurance fraud were successfully prosecuted by government authorities?
  - How many claims were successfully denied for suspected fraud and what was their economic value?
  - How many fraudulent claims were deterred from being made and what was this economic value?
- Actuaries can help ensure that models do not result in unfair profiling.

Data

- Broad industry data to help quantify the potential size
- Specific data to related to specific acts of fraud
  - Data from traditional processes
    - Underwriting/Pricing Data
    - Claims Intake Data
    - Unstructured Claims Documents
  - External/Augmenting data
    - Additional data provided at time of sale
    - Additional data obtained throughout the claim
    - Scores obtained from an external statistical or AI process
- Keep in mind, ASOP No. 23, *Data Quality*

Summary

- Fraud has important public policy considerations.
- There are many ways to commit fraud.
- Fraud is impacting some parts of our society disproportionately.
- Actuaries are asked to solve these types of problems within the insurance industry.
- Looking to create broader awareness among actuaries.

Thank You

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