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Frauds against the insurance industry

A study based on interviews with representatives of insurers and police authorities, as well as statistics and register data

Summary

Purpose and source materials of the study

This study stems from the insurance industry's concern about the abundance of insurance fraud. Despite the large number of suspected cases, the number of insurance frauds reported to the police is low.

This study reviews insurance fraud from several perspectives. It addresses the legislation and self-regulation concerning the insurance industry, statistical data of suspected fraud cases, opinions of insurance-industry experts and police authorities, as well as the process of handling insurance fraud. Furthermore, there is a more extensive outlook on insurance investigators' and police authorities' observations on investigating insurance fraud.

This study is not limited to insurance fraud cases investigated by the police; it also deals with suspected fraud cases detected by insurers. This allows us to review the investigation methods and tools available within the insurance industry, as well as hidden crime. Insurance fraud constitutes a significant, multi-dimensional social problem.

Regulation of the insurance industry and insurance fraud

The Finnish Insurance Companies Act (521/2008) and the Act on Insurance Associations (1250/1987) stipulate the general framework rules for insurance provision. The Insurance Contracts Act (543/1994) outlines the content of personal and non-life insurance contracts in detail, regulating such factors as the parties' information disclosure obligations, compensation procedures, matters affecting the payment of compensation, and limitations to the insurance company's responsibility.

The insurance industry has developed a number of vehicles of self-regulation to help in the investigation of possible fraudulent cases and the related fraud crime. The common guideline for self-regulation, the "good insurance practice" states that insurers are required to work not only within laws and regulations but also justly and equitably. The Finnish insurers' *Joint claims register* of 5.5 million cases allows insurers to access each other's claim information. The *Fraudulent claims register* contains information on abuse cases reported to the police by insurance companies. This register contains cases involving 420 people.

Another vehicle of self-regulation is *insurance investigation* that comprises more than 30 investigators, assistants and IT experts specialising in investigating suspected insurance fraud and fraud prevention. The insurance industry has drawn up special internal instructions for this purpose, the "Good practice guidelines for insurance investigation."

Insurance fraud cases are governed by the provisions on fraud and other dishonesty outlined in Chapter 36 of the Finnish Penal Code (769/1990). The stipulations concern fraud, aggravated fraud, petty fraud and insurance fraud. The Penal Code's stipulations on insurance fraud are limited to cases of setting fire to property that is covered by fire insurance. The consequences for the above-mentioned offences vary from fines to four years of imprisonment.

Statistics on suspected fraud and the investigation of such cases

Insurance companies' investigators handled just over 2,000 suspected fraudulent claims in 2007. The number of such cases reduced by approximately 20% from 2003 to 2007. Suspected fraud cases only account for 0.2% of all claims submitted to insurance companies.

Claims related to damage incurred on vehicles accounted for 55% of all investigated cases. Nearly 25% of investigated insurance cases involved damage to household items. The remaining cases comprise personal accidents, damage to company property, and other types of damage not mentioned above.

Cases investigated by insurance investigators in 2007 featured a total of EUR 43 million in compensations claimed by customers. The total sum of compensation claims increased in the period 2003–2007. Compensations claimed in suspected cases account for less than two percent of all compensation expenses.

Household item damage accounts for just under one-third, and vehicle damage for nearly a quarter of the compensations claimed in suspected insurance fraud cases. The shares of "other" cases and personal injuries add up

to nearly one-fifth of all compensations claimed, and the corresponding share of corporate property damage is less than one-tenth.

Approximately 90% of cases that require special investigation are based on observations made by the insurance company in question; the remaining cases come up in conjunction with other criminal investigations. In 2007, insurance companies reported a total of 89 fraud cases to the police. The amount of police reports filed has decreased in 2006 and 2007. The cases reported to the police only account for some five percent of all suspected fraud cases investigated by insurance companies.

Opinions of insurance-industry representatives and police authorities on insurance fraud and the investigation thereof

It is equally difficult for the insurers and police to determine which fraudulent acts have been committed on purpose with criminal intent and which are due to the claimant's carelessness and thoughtlessness. The question to resolve within the insurance industry is the distinction between acts that may be blameworthy but are not reprehensible under the Penal Code and those that are, indeed, subject to penal consequences. The concepts of deception and fraud are not being used in a uniform manner in the insurance industry. The interviewed insurance-industry representatives may have slightly different definitions for deception and fraud and use these concepts in different ways. However, all of the interviewed insurance-industry representatives base their definitions of these concepts on contractual relations.

The interviewed insurance-industry representatives underline that fraud cases reported to the police must be of such nature that they would go through pre-trial investigation to prosecution and possibly lead to a verdict. It is possible that a police report is not filed even if there is strong evidence to support the suspicion. Civil proceedings are often considered as an alternative to the criminal-law procedure. Insurance companies always make a case-specific decision on whether to file a report with the police on a case or not. The police representatives interviewed stated that cases are investigated on the basis of priority, and insurance fraud cases may not be among the most urgent. The workload of the police officer investigating the case may also affect the duration of the investigation process. It is difficult to estimate the processing speed of a case based merely on the case type.

The interviews brought up contradicting opinions as for whether personnel increases are needed within the police or the insurance industry in the field of preventing and investigating insurance fraud. The interviewed police authorities complemented the insurance investigators for their good professional

skills. Some of the insurance-industry representatives criticised the police for insufficient proficiency in preventing and investigating insurance-related crimes, but some, however, noted that the police have gained increased knowledge of the insurance industry. Representatives of insurance companies stated that cases of insurance fraud or attempts thereof are of marginal interest for the police. Training has been arranged to enhance the police's and other authorities' knowledge of the insurance business and the related legislation. This will also enhance the authorities' understanding of insurance fraud.

Cases involving large amounts of money are seen as success stories both in the insurance industry and by the police. The police are particularly interested in cases that enable recovering large amounts of illegally obtained funds. According to the interviewees, insurance frauds are at least partly tied to economic crime and organised crime. On the other hand, they note that the majority of insurance fraud cases represent daily crime rather than economic crime. Most cases constitute offences or attempts thereof committed by normal citizens. The increasing internationalisation of insurance fraud is, however, seen as a threat.

The prevention and investigation of insurance fraud are considered to form an important part of the insurers' social responsibility. A key aspect in insurance fraud investigation is the fact that it is a tool to prevent and investigate insurance fraud and other similar abuses to limit any losses that may be incurred on honest policyholders in the form of increased premiums. On the other hand, insurance fraud investigation can also be seen as part of corporate security as it protects other insurers against criminal activity. There are no precise guidelines for insurers to determine which cases are ethically of such nature that a police report or request of a pre-trial investigation is in order.

Customer selection is seen as a central method of preventing insurance fraud. However, statutory insurance policies (such as motor insurance) don't allow insurers to freely select their customers. Furthermore, introducing suspected fraud cases to the criminal-law process and the financial benefit gained by the fraudster are key elements in crime prevention. In minor cases, terminating the insurance policy and denying the compensation claim are considered to be more efficient tools than the criminal-law process. Cooperation between the insurers and the police and other authorities is seen as the foundation of crime prevention.

Insurance fraud in the criminal-law process

The suspected insurance frauds reported to the police in 2005 (n=220) are typically cases reported by insurers themselves. Only a minor share of the

cases came to the police's knowledge in conjunction with the investigation of another criminal case. Most cases are in some way connected to passenger cars and the use and ownership thereof. In terms of offence type, most of the cases constitute fraud or attempted fraud.

A vast majority of insurance fraud cases registered by the police in 2005 proceeded to prosecution. Six cases are still open, and three have been interrupted. Usually, the verdicts in the cases have been in accordance with the charges. Nearly one-half of the verdicts were issued for fraud and nearly one-third for attempted fraud. Similarly, fraud and attempted fraud account for the majority of cases in which the charges were dropped. In most verdicts, the insurance fraudster was sentenced to imprisonment; however, the sentence was most often conditional with a probation period.

Processing of an insurance fraud case through the different phases of the criminal-law process took, on average, 15 months. Pre-trial investigation has been the longest phase that has typically taken up nearly one-half of the total processing time.

Conclusions

Today, insurance companies have more efficient means to select their customers and investigate suspected fraudulent claims. The Joint claims register and Fraudulent claims register facilitate customer selection and the investigation of suspected claims. Reinforced insurance investigations would further enhance this process.

Insurance companies do not report all detected fraud cases to the police. The distinction between acceptable and fraudulent cases can be unclear. Furthermore, it may be difficult to find sufficient evidence of fraud. Insurers should more thoroughly consider the pros and cons of reporting suspected fraud cases to the police more often.

Insurance fraud accounts for a marginal share of all criminal cases investigated by the police. Fraud and other kinds of abuse against insurers are usually not top priority for the police. There is room for further specification of the rules and guidelines of fraud investigation between the insurers and the police. Police authorities' knowledge of insurance fraud should be enhanced.

The majority of insurance fraud cases belong to the sphere of daily crime. However, some cases are tied to professional economic crime or organised crime. This is an important point to bear in mind in the increasingly international insurance business. This development trend may require a higher priority given to insurance fraud by the police in the future.

This study indicates that the systems of filing insurance-related statistics and register entries related to the criminal-law process could benefit from better unification. It would be beneficial to collect follow-up data on the work of insurance investigators on a regular basis. The perspectives featured in this report could be expanded in two directions: criminal cases could be specified in more detail, and fraudulent activities in society could be reviewed on a more extensive scale and not merely as an issue targeted at insurance companies.