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Fraud Detection: A Method to the Data Source Madness; Insurers, including Nationwide, CNA and MetLife, are leveraging a rowing number of data sources and applying high-performance analytics to help detect patterns of fraud as early as possible.

By: Bob Violino, Insurance Networking

Companies in many industries are extolling the benefits of data analytics to generate new business opportunities and better serve customers. For insurers, there's an additional benefit: early detection of fraudulent activity.

Insurers are leveraging a growing number of data sources - including social media - and applying high-performance analytics to help detect patterns of fraud as early as possible.

Insurance fraud affects not only every insurance company, "but virtually every consumer and taxpayer worldwide, and it shows no sign of easing," according to a 2013 report by research and advisory firm Aite Group. The firm estimates that claims fraud in the U.S. property/casualty industry alone cost carriers $64 billion in 2012 and will reach $80 billion by 2015.

Claims fraud detection is an area where insurance companies will "drastically" increase investments in the next three to five years, says Nicolas Michellod, senior analyst with the insurance group at research and advisory firm Celent, and author of the firm's 2013 report "The Market Dynamics of Claims Fraud Detection."

The pace of insurers' investments in claims fraud detection technology will depend on their understanding of the importance of analyzing data using modern technologies, Michellod says. A survey of 178 insurers conducted by Celent in 2013 shows that just under 40 percent have already invested in tools supporting fraud detection, and more than 40 percent have invested in predictive analytics systems.

"Growing numbers of insurers are adopting high-performance analytics such as predictive analysis," says James Quiggle, director of communications at the Coalition Against Insurance Fraud, a Washington-based anti-fraud alliance.

"Higher-power programs compact the time-space continuum for claims," Quiggle says. "Insurers can spot claims far earlier in the cycle, in close to real time. Investigations can begin faster, thus reducing payouts for bogus claims."

Nationwide Mutual Insurance Co. in Columbus, Ohio, "believes in the intelligent combination of data and analytics to detect and deter fraud from the point of sale to claim," says Rick Wahls,

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Coalition Against Insurance Fraud

claims director, special investigations unit (SIU) at Nationwide.

"For example, early detection of masked or hijacked IP [Internet Protocol] addresses along with IP addresses originating from foreign countries can help identify fraud rings at the point of sale," Wahls says. "Fraudsters have behavioral patterns that once learned can be potentially identified as early as during the quote process."

Being able to see the entire view of interactions between customers and Nationwide enables the company to use predictive models to identify patterns within a claim that could only be generated by computer analytics, Wahls says. "Viewing as part of an entire ecosystem of customer interactions and activities makes predictability of fraud more of a science than a gut feel or just following one-off red flags," he says.

Nationwide has used a multi-layered approach to fighting fraud since the SIU's inception in 1985. "We do not feel that a one-tool technology solution fits our needs," Wahls says. The firm has a diverse product line and leverages independent and exclusive agents, brokers, affinity relationships and the Internet to sell insurance.

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