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Using ERM Techniques To Mitigate Fraud

Reassessing Fraud Risk, Part 2

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Part One began our discussion of insurance fraud, its impact on the industry, and how many insurers have begun to focus specifically on claims fraud as part of their enterprise risk management (ERM) strategy.

Today, we delve deeper into how risk professionals can more accurately gauge the potential for internal and external fraud in all departments and functional areas of their respective organizations. Are the real risks of fraud being adequately addressed? What are some opportunities for improvement?

Better fraud risk management begins with awareness. Once an organization has answered these preliminary questions, it can incorporate ERM techniques in the following ways to ultimately quell fraud:

Develop an enterprise-wide fraud strategy. Putting a defined strategy in place can help companies lower both the frequency and severity of fraud incidents. An important "first step" in the process is changing senior management perceptions of fraud control efforts. Fraud prevention initiatives and technology should not only be addressed to isolated incidents within specific departments, but should be considered a longer term, coordinated investment. Fraud-detection resources may need to be re-evaluated as purely expense or a cost center, and re-cast as cost –savings activities. Ultimately, "avoided fraud loss" can be a significant percentage of total revenue.

Invest in analytics. Expanding data analysis and analytics can be a significant move in expanding fraud fighting efforts and improving fraud risk detection and identification. Recent studies indicate that anti-fraud technology increasingly is viewed as integral to insurers' battle against insurance fraud, but major challenges remain for insurers to fully deploy technology solutions beyond the claim department, according to a 2012 study conducted by the Coalition Against Insurance Fraud.

Many new software programs are available today which allow companies to go beyond "red flag tagging," scanning not only variances and anomalies in claim reporting and settlement patterns, but also detecting more accounting, payroll, underwriting or point-of-sale and vendor transaction fraud. Companies may also benefit from predictive modeling, social media relationship mining, geographic data mapping and other advanced analytics.

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> **Coalition Against Insurance Fraud**

While technology may never replace human intuition, instincts and auditor or adjuster expertise, it can provide more immediate feedback and data to speed and improve the quality of investigations.

Rework your SIU team. A practical next step offered by the Forrester Report is re-organizing special investigative unit (SIU) teams to include more cross-functional staff, adding team members from all departments, and including specialized experts in audit and data analysis such as statisticians. As noted by the Report, as insurance fraud requires more and more analytics, "anecdotal and rule-based systems won't cut it moving forward. You need resources that can: 1) understand requirements for fraud scoring of insurance cases; 2) work with fraud management vendors to internalize fraud management knowledge in the organization; and 3) update analytical fraud risk scoring models so that they are always effective at cutting fraud losses."

Centralize your data. In addition, as with other ERM program risks, monitoring internal and external losses in a centralized location, across departments, is crucial to both educating management and staff about fraud, and developing better controls over time.

View the entire article. View other articles quoting the Coalition Against Insurance Fraud.