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Overcoming Workers' Comp fraud with detection technology

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Auto insurers get all the attention when it comes to fraud detection. It seems that no-fault states are the center of the fraud universe. But what about commercial claims?

The fraud problems faced by Workers' Compensation insurers are significant, and they, too, can use fraud analytics programs to help detect bogus injury claims, fraudulent medical providers, and premium avoidance scams with outstanding results.

While there does not appear to be any commonly agreed upon measurements regarding the impact of Workers' Compensation fraud, it is clear that the industry believes it to be a significant problem. A National Insurance Crime Bureau study indicates that Workers' Compensation fraud costs insurers as much as $7.2 billion annually. The Coalition Against Insurance Fraud has stated that "Workers' Comp fraud is a large crime in America today. Tens of billions of dollars in false claims and unpaid premiums are stolen every year."And 69% of Workers' Comp insurers expect a rise in scams.

Another explanation may be that Workers' Comp carriers have just been slow to adopt automated fraud detection technology because of resistance to change, reliance on manual processes, limited IT resources, and concerns about data access and quality.

The same study also found that "As critical as technology is to maximizing claims effectiveness this is an opportunity area where the industry can make great progress. The 2013 and 2014 study results reflect that less than half of organizations are using workflow automation to manage best practices and about one quarter are using advanced analytics such as predictive modeling."

Clearly the Workers' Comp world needs to change its mindset about, and approach to, detecting fraud. So what are the main drivers of Workers' Comp fraud that insurers should focus on detecting?

Based on the financial implications and concerns about fraud being a growing problem, why do Workers' Comp carriers appear to be underserved in the automated fraud detection area? One factor may be that they don't perceive fraud and abuse to be a high priority compared to other issues like medical management, disability management and case reserving. When Rising Medical Solutions' 2015 Workers' Compensation Benchmarking Study asked participants to rank the core competencies most critical to claim outcomes, the Workers' Comp carriers ranked fraud and abuse detection ninth out of the 10 categories listed.

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Coalition Against Insurance Fraud

They tend to fall into three categories: employee claims fraud, medical provider fraud and premium avoidance.

Each of these categories have several associated scams. For example, in employee claims fraud, you will see fake injury claims, inflated injury claims, claims for injuries that occur outside of work, and malingering.

In medical provider fraud, you might see fake clinics with no licensed medical providers that are ground zero for bogus Workers' Comp claims, or medical mills that enhance the nature and extent of injuries, overprescribe and overbill for treatments, or bill for treatments not rendered to line their own pockets and build up the employee's workers' comp claim.

Finally, there is premium avoidance fraud, which not only affects the insurer, but can also hurt the employee by costing them much needed coverage when a legitimate accident occurs.