

Supervisory Responses to Fraud

IAIS-A2ii Consultation Call, 19 July 2018

Presenters

Moderator



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Банк России

Центральный банк Российской Федерации



Dmitry Chiknizov

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Insurance Fraud

July 2018

Accordance with the legislation of the Russian Federation, insurance can be carried out in compulsory or voluntary form



The insurance market in Russia is represented by the following main segments:

- compulsory insurance of civil liability of vehicle owners (OSAGO);
- life and health insurance;
- property insurance;
- voluntary insurance of vehicles (CASCO);
- voluntary medical insurance.



Internal fraud



Fraud committed by owner /beneficiary or employee of the insurance company.

External fraud on
the part of the
insured person



Fraud committed by the direct subjects of the insurance contract and predominantly pursuing one of the following objectives:

- Illegal receipt of insurance compensation;
- Overstatement of insurance compensation;
- Illegal reduction of insurance premiums.



External fraud on the part of intermediaries



fraud, committed by insurance agents or brokers and aimed primarily at obtaining unreasonable benefits (often, the appropriation of a part of insurance premiums) by providing unworthy information when concluding an insurance contract with the insured.

External fraud on the part of suppliers of good, works, services



the main categories of counterparties are subjects of this type of fraudulent activity:

- partners of insurance companies (car service stations, medical institutions, medical and social expertise institutions);
- counterparties of insurance companies under contracts aimed at meeting the administrative and economic needs of insurers.

Mixed fraud

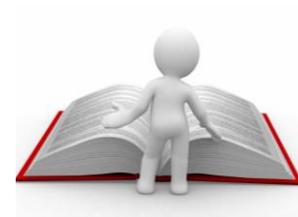
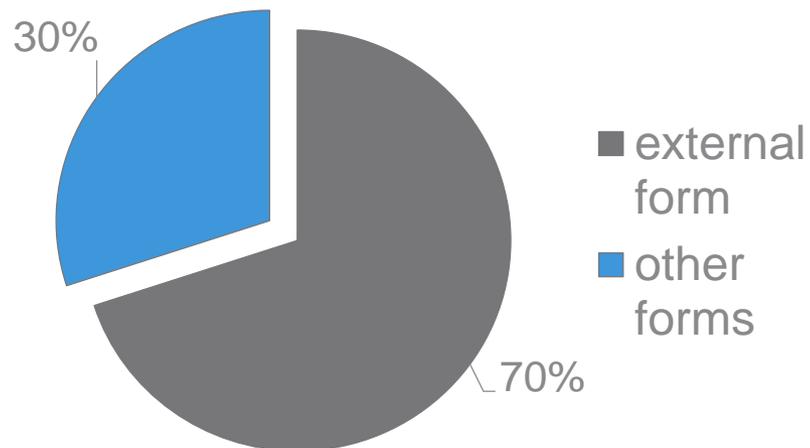


fraud, that combines elements of internal fraud with elements of any of above types of internal fraud.





- The most common form of insurance fraud in Russia is external, committed by insured, insured persons and beneficiaries, accounting about 70% of all recorded fraud cases.
- The smallest proportion of recorded fraud is violation on the part of suppliers of good, services, and work.



In recent years, motor insurance is considered one of the most problematic segments of the Russian insurance market in terms of susceptibility to fraud.



- Dramatization of a traffic accident;
- Deliberate increase in the degree of damage to the vehicle;
- Provision of false information when concluding an insurance contract;
- Staged hijacking of the vehicle;
- Falsification of the documents on road accidents provided to the insurer when confirming the occurrence of an insured event;
- The conclusion of the insurance contract after the occurrence of the insured event (The frequency of the use of this scheme has grown after the mandatory sales of OSAGO policies in electronic form since January 2017). The speedy processing of OSAGO policies through the Internet allows unfair insurers to minimize the time lag between the road accident and the conclusion of the insurance contract;
- Use of counterfeit insurance policies;
- Increase in the amount of insurance compensation with the participation of "motor lawyers".

➤ Regulatory measures

Regulatory measures aimed at identifying and preventing insurance fraud and combating it, including the adoption of relevant regulatory legal acts, the establishment of mechanisms for monitoring and supervising compliance by market participants with these acts, establishing mechanisms for interaction with other regulators and law enforcement agencies to improve the effectiveness of measures counteraction to fraud.



➤ Measures taken at the level of professional organizations and associations;

➤ Domestic policies and measures to counter fraud at the level of individual insurance companies.

Legislative function

Despite the fact that the Bank of Russia does not have a formal right to legislative initiative, the regulator repeatedly made proposals on introducing changes to the current legislation on insurance, mainly in compulsory motor insurance. While much of the initiative is not directed directly at countering fraud, it has an indirect effect on reducing the prevalence of fraudulent schemes:

Introduction of the priority of the repair of the damaged vehicle over the insurance payment in the segment of compulsory motor insurance in 2017. This initiative implies a shift in the focus of the attention of motor-lawyers from claims for obtaining insurance compensation to claims for compensation for poor repair and thereby reduce the interest of fraudsters to the segment of compulsory motor insurance by removing the monetary component

The Bank of Russia initiative to establish a delay in the beginning of the validity of the electronic compulsory motor policy for 72 hours from the moment: this measure will allow to fight against fraudsters who buy an insurance policy in hindsight after an accident;

Proposal of the Bank of Russia on the marking of websites of legal insurers in the segment of compulsory motor insurance: in the Russian search engine Yandex will be marked the websites of insurers, which officially sell electronic policies. This measure will allow to fight against Internet scammers who create "clones" of insurance companies' sites and carry out the sale of fake policies.



The Bank of Russia interacts with various players in the insurance market, including professional associations of insurers and individual insurers, as well as law enforcement and government agencies to counter insurance fraud.

The Bank of Russia cooperates with law enforcement agencies and executive bodies mainly in the format of interdepartmental meetings, as well as through the exchange of experience and conducting training seminars and lectures on the problems of insurance fraud.



The Bank of Russia also conducts coordination work with judicial bodies, taking part in meetings of regional courts and exchanging experience on grounds of insurance fraud, as well as participating in the work of the Supreme Court in explaining and interpreting the law on insurance.

The regulator takes actions to inform policyholders about the problems of insurance fraud.



Thank you for your attention!



Банк России

Центральный банк Российской Федерации

Служба по защите прав потребителей
финансовых услуг и миноритарных акционеров

Supervisory Responses to Fraud

A2ii-IAIS Consultation Call, 19 July 2018

KNF

KOMISJA
NADZORU
FINANSOWEGO

**Central, Eastern Europe and
Transcaucasia Region (CEET Region)**

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- Agenda:**
1. Definition of the insurance fraud
 2. Impact on the market
 3. Insurance fraud – CEET general region overview
 4. Insurance fraud in Poland
 5. Combating insurance fraud – the Polish approach
 6. What the future has in store?
-

1. Definition of the insurance fraud

- No single definition
- Evolution of the CEA/Insurance Europe definition:

Comité Européen des Assurances (CEA) definition:

Act or omission relating to the conclusion of an insurance contract or to a claim aimed at gaining unjustified enrichment for the fraudster or another party, or causing a loss to another party.



Insurance Europe definition:

providing false or incomplete information in applications for insurance or answers on an insurance proposal form;

submitting a claim for a loss based on misleading or false facts, including exaggerating a genuine claim; and

otherwise being misleading or untruthful in dealings with an insurer with the intention of gaining a benefit under the insurance contract

2. Impact on the market

Insurers

- higher value of compensation paid
- deterioration or loss of financial liquidity
- reputation risks
- no ability to deal with genuine claims quickly

Clients

- higher premiums
- lengthy settlement procedures

Society

- might provide financial sources for other serious crimes
- increased costs of investigation/prosecution
- insecurity

3. Insurance fraud – CEET region general overview

- Data could only be achieved from several countries
- Similar tendencies for all countries
- Percentage of fraudulent claims differs across the CEET countries, but generally is **15-30% of the fraudulent claims** (whereas in the EU, the average is 5-10%)

Most of the fraudulent claims in Motor/MTPL insurance include:

Staged accidents,
including fake
traffic accidents

Overcharging for
repair

Simulated theft
of luxurious cars

4.1 Insurance fraud in Poland: statistics (2016)

	Non-life insurance	Life insurance
Market share	57% (MTPL insurance 62%, accident and theft insurance: 38%)	43%
Number of fraudulent cases	9 515	738
Fraud rate	Average rate: 1.15%	Depending on the insurer: 0.005% – 4.58% (average rate: 0.075%)
Amount	PLN 211 912 835 (approx. EUR 49 m)	PLN 13 745 898 (approx. EUR 3.1 m)
Most typical fraud	<ul style="list-style-type: none"> • MTPL insurance: 30.02% • Accident and theft insurance: 20.6% 	<ul style="list-style-type: none"> • Payment upon death of an insured person (80%), i.e.: (i) informing the insurer about a cause of death other than the one that actually caused the death of a family member (ii) concluding insurance agreement just before death • Agent-driven crimes
Tendency	A 28% decrease in the number of cases reported The value of claims increases	A 12% decrease in the number of cases reported The value of claims increases
Higher value of claims mainly due to higher prices of spare parts, repair services, etc. Insurance crimes are becoming increasingly sophisticated, fraudsters focus on higher single gains rather than the number of cases.		

Sources:

1. Polish Chamber of Insurance, *Analysis of crime data disclosed in 2016 in connection with the activities of insurance companies - members of the Polish Chamber of Insurance*
2. Central Statistical Office, *The Polish Insurance Market, 2016*

4.2 Insurance fraud in Poland - biggest frauds

Agent-driven crime:

- Agents were concluding insurance contracts with friends/relatives and received a commission for the entire term of the contract. **Then the insured ceased to pay the premium or terminated the contract.**
- The Polish solution: Polish **Act on the Business of Insurance and Reinsurance** of 2015 requires insurers to **spread its expenses relating to agent's commission over time** in life insurances with insurance capital funds
- **Result: decreased crime rate**

Example: an attempt to obtain a compensation of PLN 40 m by burning a tow truck allegedly containing luxury cars. The analysis showed that in reality the cars were wrecks.

4.3 Insurance fraud in Poland - MTPL examples

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1. Traffic accidents caused deliberately by drivers acting in concert (the compensation to be paid is expected to be higher than the loss)

 2. Use of a damaged vehicle that serves as evidence of an alleged accident, which in fact is staged

 3. Fictitious or unjustified costs relating to the accident

 4. Submitting an application for payment of compensation under the accident and theft insurance after fictitious car theft

 5. Reporting the same car damage to two insurance companies (despite the fact that the Polish law does not allow for multiple MTPL insurance contracts)

5. Combating insurance fraud – the Polish approach

Training initiatives

- **Regular nationwide seminar** „Cooperation between Police, insurance companies and other insurance market institutions in the field of prevention, disclosure and combating insurance crime” for representatives of police, national and local authorities, KNF, financial institutions, etc.

Exchange of information

- **Europol** and **Interpol**, as well as liaison officers of law enforcement agencies in third countries

Insurance Guarantee Fund Platform

- **Currently at its pilot stage, data is being collected from the insurance sector**, to be launched this year
- Industry-wide, all market participants may join the platform (provide and receive data)
- Exchange of information on the risks of insurance contracts and claims settlement i.e. prevention of multiple claims regarding the same accident

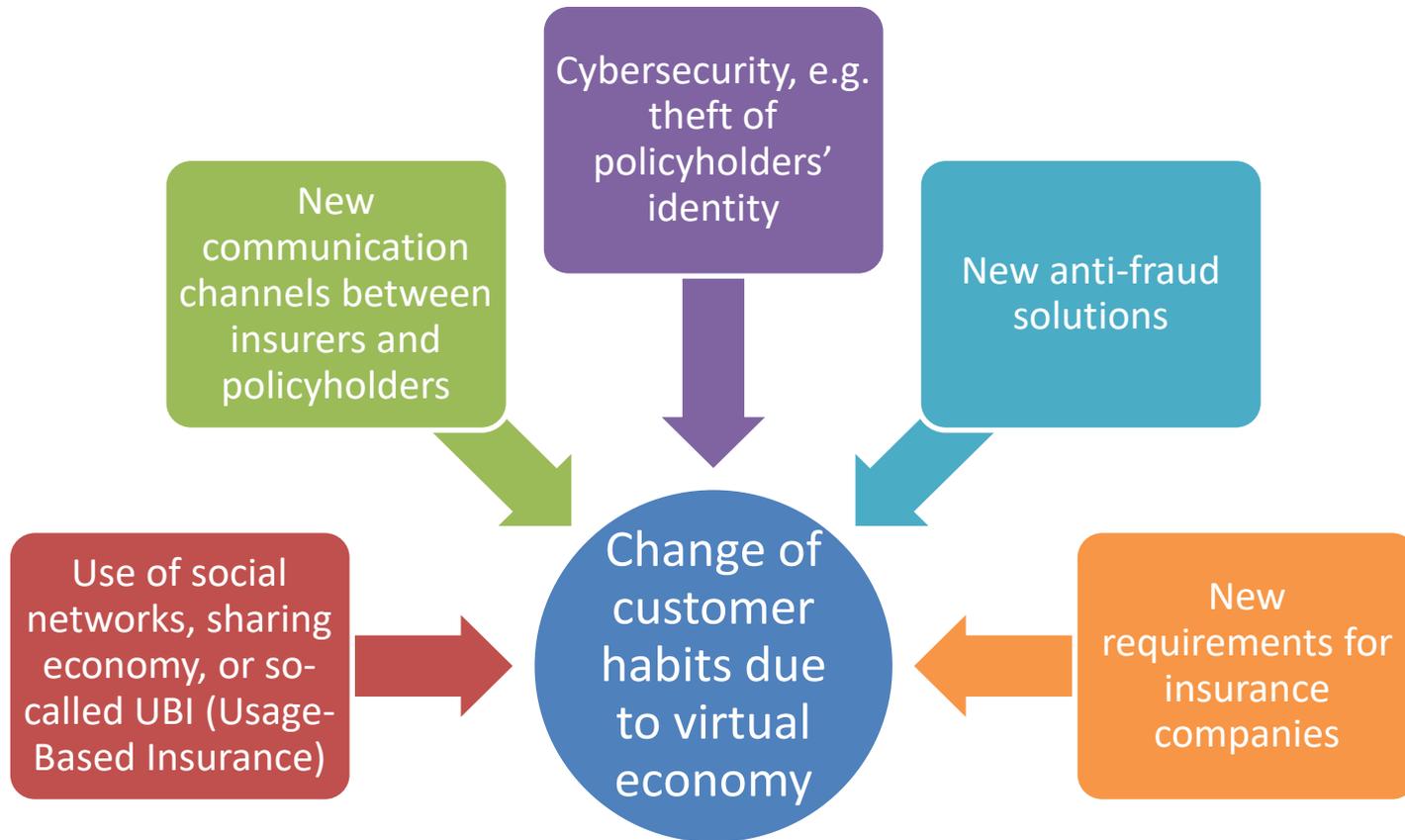
KNF

- Carrying out **surveys on insurance fraud** in cooperation with insurers
- **Education Centre for Market Participants CEDUR** – lectures for financial institutions
- Supervision over the organisation of the **internal control system** and **internal audit unit** in insurance companies
- As part of **BION** (RAF - Risk Assessment Framework), the KNF addresses insurance fraud rate in the total result of the assessment. In case of issues revealed, the KNF requests corrective actions.

Polish Chamber of Insurance

- The Polish Chamber of Insurance carries out **studies on insurance fraud**
- **Reports on insurance fraud are published annually**
- The survey covers all insurance companies (those based in Poland, and branches of foreign insurance companies)
- In 2016, answers were sent by almost all insurance companies operating in Poland

6. What the future has in store?



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Guernsey Financial
Services Commission

*“How do you tackle fraud if you have no criminal powers?
The experiences of the GFSC.”*

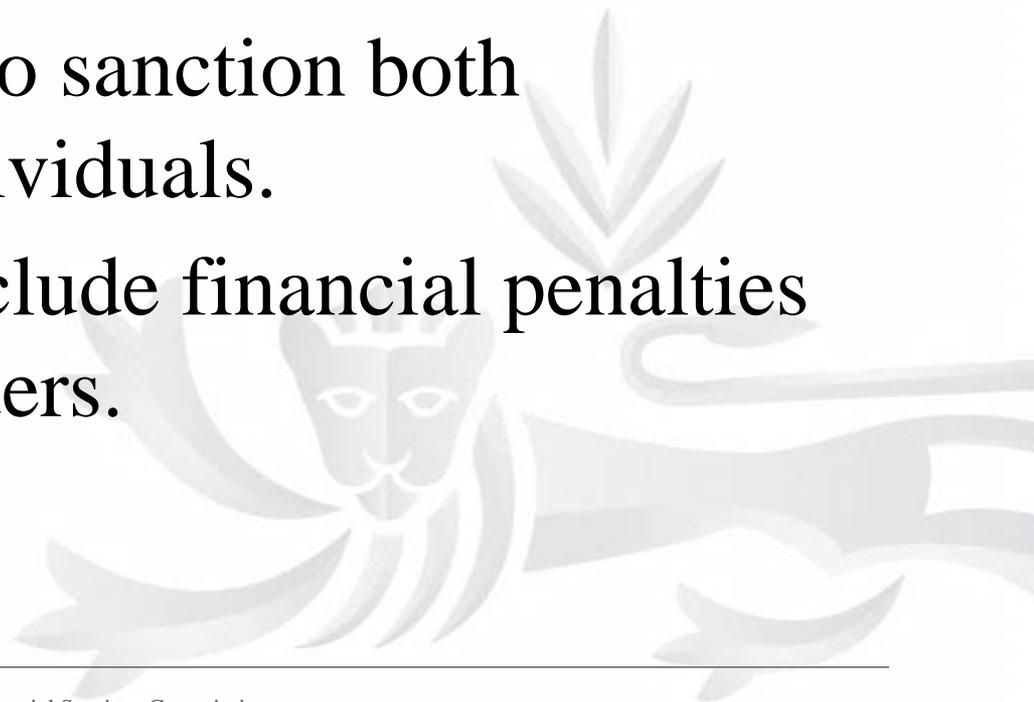
Callum McVean – Deputy Director, Enforcement

Kevin Bown – Deputy Director, Intelligence



The GFSC

- Has no criminal powers to investigate or prosecute criminal offences, including fraud.
- Uses civil powers to sanction both companies and individuals.
- These sanctions include financial penalties and prohibition orders.



GFSC approach to fraud

- Liaison with local Law Enforcement to tackle fraud.
- Sharing of information re financial crime via a national network - the Financial Crime Information Network.
- Issuing warning notices where trends have been identified regarding fraud.
- Thematic reviews to identify potential weakness to fraud.

GFSC approach to fraud – cont'd

- Considering firms where fraud has occurred and investigating (using civil powers) the controls and mechanisms in place at the firm, and whether these were sufficient to prevent fraud.
- Undertaking civil investigations, in parallel with criminal investigations, into those people suspected of committing fraud.

Liaison with local Law Enforcement

- MOU with Financial Intelligence Unit (FIU) to share information re suspected financial crime.
- Creation of a joint committee between the GFSC and FIU, which meets regularly to discuss cases of mutual interest, including suspected fraudulent conduct.
- Provides a more complete picture of fraud and prevents “*blue on blue*” incidents.

The Financial Crime Information Network

- A national (UK) network hosted by the Financial Conduct Authority (FCA).
- Membership includes UK Law Enforcement agencies and UK regulators.
- Provides an early warning system for new frauds.
- Ability to exchange information re serious cases of fraud.

Issuing Warning Notices

- Specific warnings re fictitious companies / individuals claiming to offer services.
- Generic warnings re new methods being used by fraudsters; for example “*phone spoofing*,” and compromised email accounts.



Thematic reviews

- Thematic reviews used to identify whether firms are vulnerable in various areas, including exposure to financial crime.
- Lessons from thematic reviews used to educate firms to help them improve their systems and controls.



Case Study 1

- A local fiduciary company identified a director had committed fraud over a 3 year period.
- The director was dealt with by Law Enforcement and sentenced to 2 years imprisonment.
- The GFSC conducted an onsite visit to the fiduciary company in order to assess the firm's policies and procedures.

Case Study 1 – cont'd

- Whilst no further incidents of fraud were identified, the poor systems and controls in place (which had contributed to the fraud being able to go undetected for three years) had also led to widespread regulatory failings.
- The firm was fined £70,000 and had to undertake substantial remedial work.

Case Study 2

- As part of a thematic review, an onsite visit of a local insurance broker was conducted.
- This initially identified serious concerns regarding the switching of clients between products with little rationale for doing so.
- The matter was referred to the GFSC Enforcement Division for investigation.

Case Study 2 – cont'd

- Following client file reviews the investigation identified that a director of the insurance broker had obtained money from certain clients for products; but had not purchased the products and had instead taken the money for himself.
- This information was passed directly to local Law Enforcement who instigated a fraud investigation.

Case Study 2 – cont'd

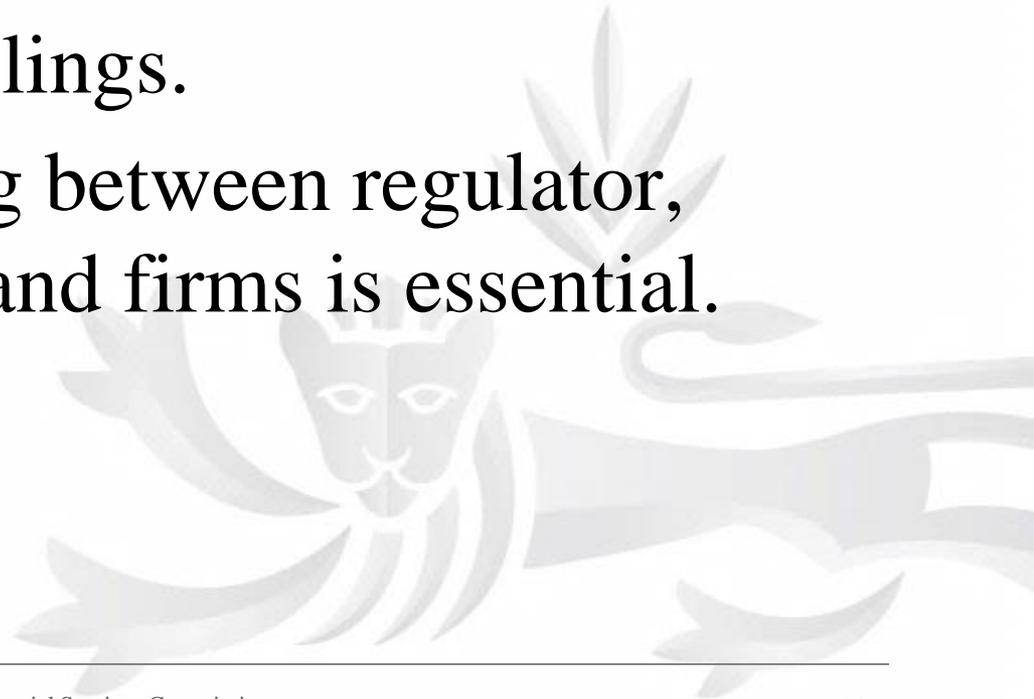
- A decision was made, in conjunction with Law Enforcement, to continue the GFSC investigation into regulatory failings.
- Thus two distinct investigations were conducted into the same firm; one criminal and one civil.
- The GFSC believes that where fraud is identified in a firm, it is often an indicator of other matters of concern.

Case Study 2 – cont'd

- The director was sentenced to 4 years imprisonment for fraud.
- The same director was found to have mis-sold financial products and given financial advice based on his own personal motives.
- The director was banned for life from being a director of any financial institution.

Conclusion

- Fraud can be tackled by regulators without criminal powers.
- Where a fraud has occurred there are often other regulatory failings.
- Information sharing between regulator, Law Enforcement and firms is essential.



Thank you for joining!

The reports of this call and previous calls can be found here :
<https://a2ii.org/en/knowledge-centre/consultaton-call-reports>

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Next consultation call: 20 September

The Initiative is a partnership between:



BMZ



Federal Ministry
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