

Insurers wage war on fraud

The Insurance Bureau of Canada

Volume 63, Number 4, 1996

URI: <https://id.erudit.org/iderudit/1105066ar>

DOI: <https://doi.org/10.7202/1105066ar>

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Publisher(s)

HEC Montréal

ISSN

0004-6027 (print)

2817-3465 (digital)

[Explore this journal](#)

Cite this document

Insurance Bureau of Canada, T. (1996). Insurers wage war on fraud. *Assurances*, 63(4), 659–664. <https://doi.org/10.7202/1105066ar>

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Insurers wage war on fraud*

by

the Insurance Bureau of Canada

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The insurance industry is determined to do something about the all-too-prevalent crime of insurance fraud. That insurance fraud is against the law may seem obvious, but reality is that many Canadians do not consider most insurance fraud a crime.



That's why, in 1993, the Insurance Bureau of Canada, along with other members of the insurance industry, launched the National Task Force on Insurance Fraud to investigate and make recommendations on the problem of insurance fraud. One result of the Task Force's work was the creation of the Canadian Coalition Against Insurance Fraud in June 1994. The Coalition includes the insurance industry, fire and police organizations, government and private business, and advocacy groups such as the Consumer's Association of Canada.

A common public attitude is that fighting insurance fraud wastes police time and resources on a problem that isn't so serious - like a white lie, really. After all, doesn't everybody fudge the facts a bit when dealing with insurance companies?

* First published in *The IBC Insurance Fraud Reporter*, April 1995.

Fraud picks everyone's pockets

Property and casualty insurance fraud in Canada costs \$1.3-billion a year in fabricated and exaggerated claims. It is a crime that picks not only the pockets of insurance companies and its clients, but drains the coffers of organizations such as fire and police services, already struggling to operate effectively within lean budgets. The cost of insurance fraud for police, courts, corrections, medical resources and legal aid is roughly another billion dollars, bringing us to \$2.3-billion. (These figures do not include public sector auto-insurance fraud or fraud related to commercial insurance lines.)

Some don't know that insurance fraud is a crime

Ten to 15% of the cost of insurance fraud is the result of fraud. Strangely, research shows that although Canadian consumers make the link between fraud and higher premiums, many can still find the justification for committing insurance fraud. Why do normally law abiding people commit insurance fraud?

One answer is ignorance — many consumers are not aware that insurance fraud is a crime. Another answer is attitude — a great number of Canadians don't consider insurance fraud a serious breach of the law, or they pass it off as something "everyone" is doing, so it's okay. Attitude is especially relevant to what we call opportunistic fraud: like inflating a claim a little to "cover the deductible", or a lot to recoup the premium too.

Of course, insurance fraud happens for reasons other than the widespread perception that it's not actually a crime. For example, an IBC study shows that about 40% of Canadians believe, in varying degrees, that there isn't much chance of being caught at insurance fraud (in fact, some industry practices may even encourage it). The Coalition is working on programs that address many causes of insurance fraud, mainly through efforts to increase public awareness of the implications of insurance fraud, and by improving business practices and campaigning for changes to relevant laws and regulations.

Studies also show that close encounters with insurance (through buying policies and making claims) is likely to reinforce the perception that fraud generally escapes detection.

As we search for solutions to insurance fraud, the next step is to consider logically who should be responsible for curbing it. IBC research shows that, despite the general acceptance of insurance fraud, most Canadians believe their home and car insurance premiums will cost more in the future because of people cheating on claims.

The public clearly places responsibility for action firmly at the feet of the insurance industry. Over three-quarters of those polled by IBC believe that a solution to insurance fraud should be crafted by the industry itself. In contrast, only 5% think that police should do more to solve the problem, and only 26% believe the solution rests with policyholders.

The mandate of the Canadian Coalition Against Insurance Fraud is to promote changes to industry practices and legislation that would make fraud harder to commit and easier to detect and punish. Another goal is to change public attitudes through education.

Many volunteers

The Canadian Coalition Against Insurance Fraud includes nearly 70 participating organizations; more than 100 volunteers (aided by one run-off-her-feet, full-time staff member, Ann Walker) work on a host of committees. The Coalition's diverse membership includes most players in the property and casualty insurance industry — insurance companies, brokers, investigators, and the government auto insurers of British Columbia and Manitoba. There are representatives from police and fire services and consumer advocates. And organizations such as the Consumers Association of Canada, Canadian Cycling Association and KPMG — the country's largest accounting firm — are also active in the Coalition's work.

The Coalition's insurance delivery committee recognizes that part of the solution for insurance fraud will be found within the industry and the way it operates. When insurance companies don't ensure that a claim is legitimate, they sometimes unintentionally give policyholders the impression that it's OK to commit fraud. Do insurance companies always inspect the damage being claimed? Are policyholders always asked to substantiate their claims for stolen goods? The answer, to often, is no.

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The industry is examining ways to stem fraud by redesigning the policy-issuing process. Consider that today, most Canadians insure their cars by phone. Pre-inscription can help avoid the problem of insuring "paper cars" or cars with undeclared existing damage. Owners would be required to present their vehicles for physical assessment before coverage is provided. Used in several U.S. States, pre-inspection helps to determine more accurately the worth of the vehicle — or whether it even exists — at the time it's insured. The Coalition is considering how to implement such an inspection program in a way that is fair and cost-effective for both consumer and insurer.

Central claims tracking

The insurance delivery committee of the Coalition is considering a centralized system of tracking claims that would be accessible by insurers and police. Too often an insurance fraudster rejected by one company is able to acquire coverage easily from another, continuing his or her ways elsewhere; competitive insurance companies do not generally share information. However, by sharing information, not only can insurance companies track those with a history of insurance fraud, they can also follow trends in the industry and thus be in a position to deliver a better product to consumers. Of course, the options being investigated by the Coalition are based firmly on a strict privacy guidelines.

The delivery committee is also developing an "anti-fraud protocol" that will ask insurers to commit to actions that

help to identify, strengthen and standardize business practices which are effective in reducing fraud. The protocol will also be made public to demonstrate the commitment by insurers and brokers to reduce insurance fraud in Canada.

Civilian fraud penalties?

The Coalition is developing recommendations for penalties for fraudulent claims. Currently, insurance fraud is generally dealt with by denying claims and/or cancelling policies. In more severe cases, the matter is turned over to police. The Coalition is currently researching the current use of penalties for fraud in Canada and may recommend that they be used more often. The report may include a recommendation for civilian penalties similar to those levied in some American states.

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In the cases of serious, organized fraud, such as arson, adequate penalties already exist. What's needed is a commitment, and the resources, to ensure that suspicious cases are investigated thoroughly and suspects prosecuted.

Another Coalition committee is addressing issues of insurance fraud relating to investigation and enforcement both inside and outside the insurance system. This committee is exploring the possibility of having community colleges include insurance fraud in their programs for insurance, police and fire-fighting personnel. The Coalition's first such effort was a week-long seminar in which participants investigated opportunities for fraud in fire-damage insurance claim — from the exaggeration of a legitimate claim to outright arson. Insurance industry personnel are currently lecturing at command courses at the Ontario Fire College in Gravenhurst. The committee is also working to have fraud-awareness training included in accreditation programs of The Insurance Institute of Canada.

A third Coalition committee handles legal and regulatory considerations, including privacy and legal issues arising from proposed changes to business practices (such as insurance pre-inspection of cars). This committee is analysing

the merits of current laws and regulations for fighting insurance fraud.

Coalition committee number four deals with research and measurement. It works with other interested parties to document the extent of the problem so that the effectiveness of fraud counter-measures can be assessed.

A fifth Coalition committee deals with public awareness; its objective is to raise awareness of insurance fraud, highlighting the magnitude of the problem and promoting a better understanding of the impact of fraud on premium costs in particular and on society's dwindling resources generally. Using various communications tactics the Coalition is taking the message to consumers... you may have heard the radio advertising spots called "Fraud Fridays" which are airing in the three dozen communities across Canada. The themes, by now, are familiar: fraud is unethical and unfair; fraud costs everybody; fraud is a crime.

Most policyholders honest

Canadians are demanding that the insurance industry do something about fraud... that it eradicate the problem. However, the industry is determined that it will not lose sight of the fact that most policyholders and claimants are honest.

Despite the highly competitive nature of the business, insurers now realize that the antidote to fraud lies in cooperation within the industry and in close liaison with community groups and agencies. The result has been the property and casualty insurance industry's unified approach to creative, proactive and anti-fraud programs initiated under the umbrella of the Canadian Coalition Against Insurance Fraud.