



FRAUD due to GFC

Investment & Financial Services Association
– Life Discussion Group

15 July 2009



Agenda

Open discussion:

- ▶ Understanding Fraud
- ▶ Fraud Statistics
- ▶ Key Factors Influencing Fraud
- ▶ What we are seeing
- ▶ How are insurers combating Fraud?

“Risk management must always be seen against the business objectives that are being sought. History teaches us that consequences can often be worse than the cause.”

(The 2009 Ernst & Young business risk report – The top 10 risks for global business)

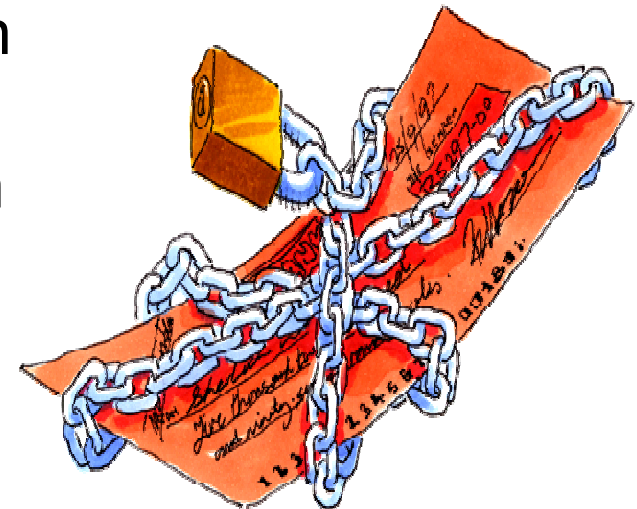
Fraud and Corruption Definition

Fraud: “Dishonest activity causing actual or potential financial loss...where deception is used...”

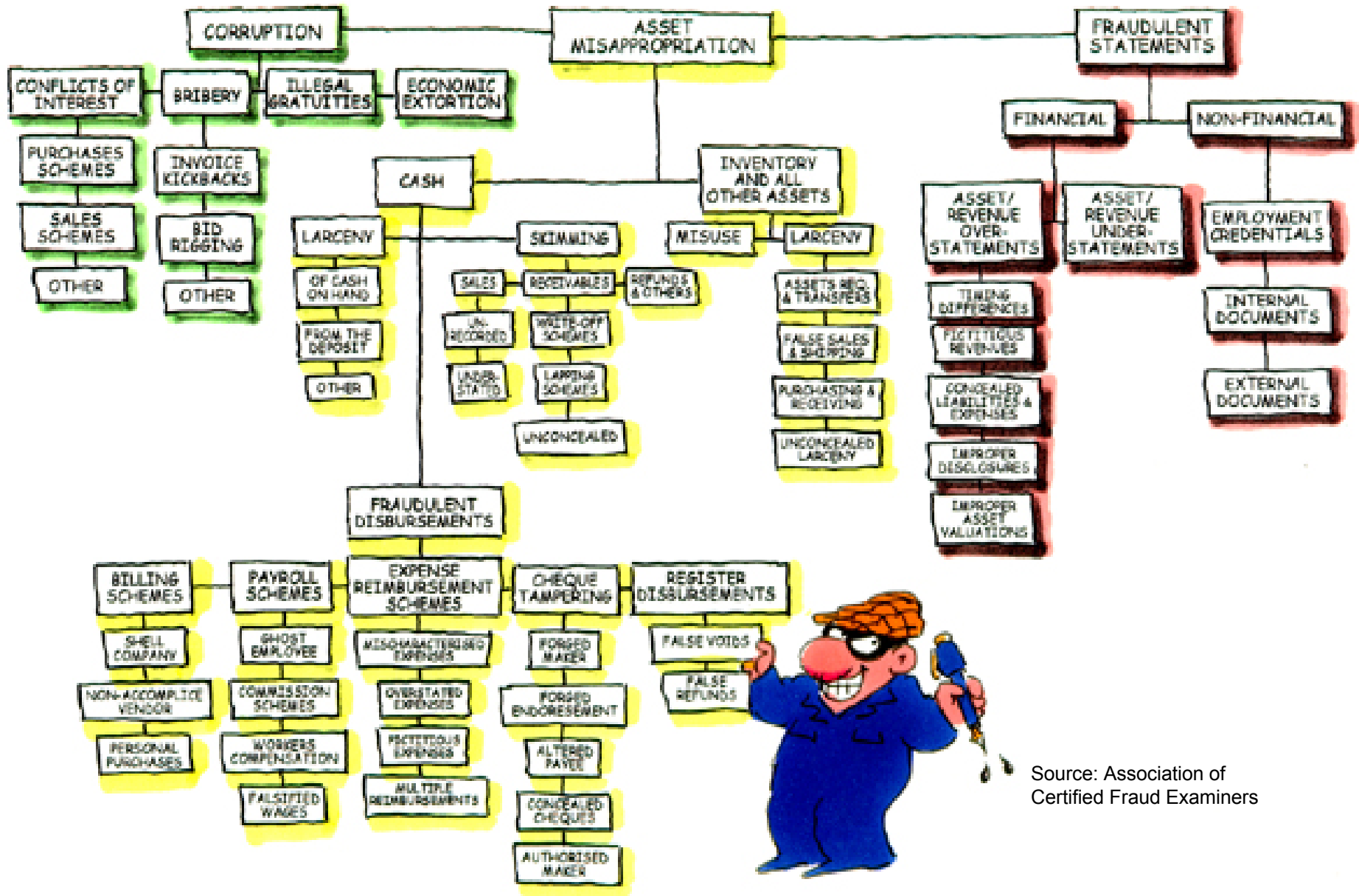
[Source: AS 8001-2008 Fraud and Corruption Control]

Corruption: “Dishonest activity in which an... employee... of an entity acts contrary to the interests of the entity...in order to achieve some personal gain...”

[Source: AS 8001-2008 Fraud and Corruption Control]



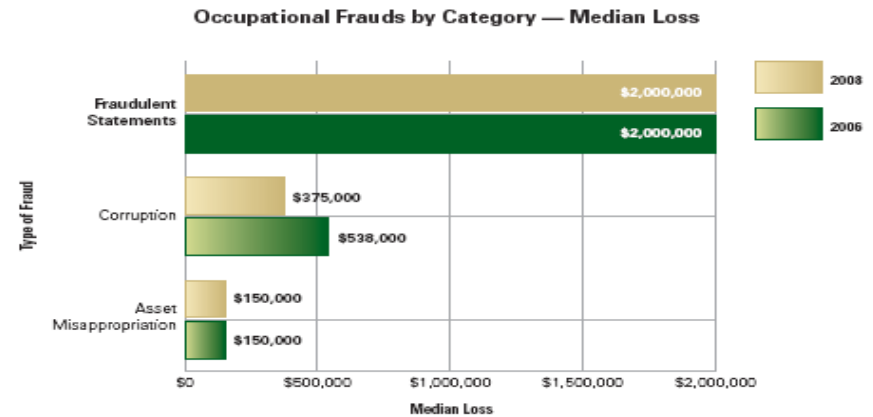
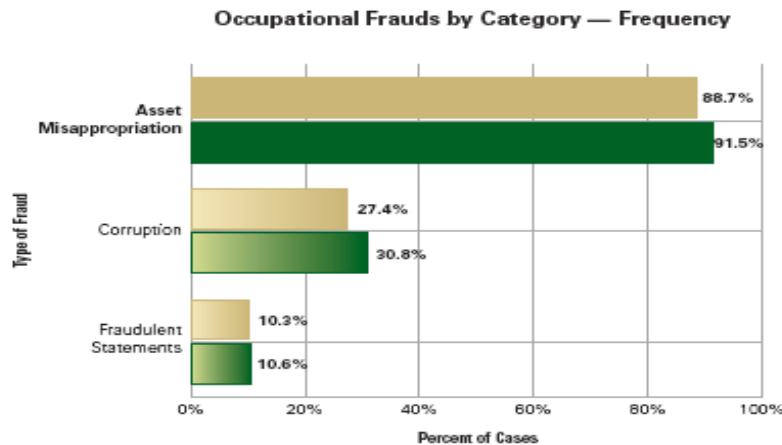
Occupational Fraud and Abuse



Source: Association of Certified Fraud Examiners

Association of Certified Fraud Examiners – Report (2008)

Source: Association of Certified Fraud Examiners, Report to the Nation - 2008



- > Most commonly cited **behavioural red flags** came from people living beyond their means (39%) or companies facing financial difficulties (34%)
- > Fraud schemes are costly and frequently continue for years, and most common schemes are **corruption** (27%) and **fraudulent billing** (24%)

Small businesses suffer disproportionately large fraud losses.

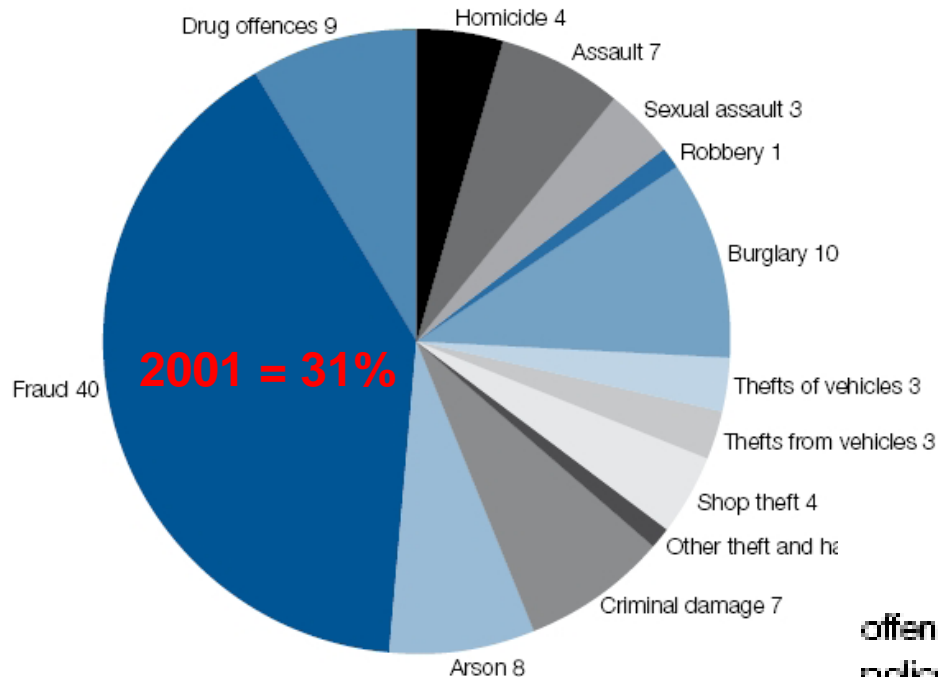
The typical organization loses 7% of its annual revenues to occupational fraud.

Almost 50% of occupational frauds involved the accounting department or upper management.

Crime Statistics in Australia

The overall cost of crime in Australia amounts to nearly \$36B per year
 Fraud is \$14B of this, or \$700 for each and every Australian

Crimes as a percentage of total costs



Source: Australian Institute for Criminology 2008

Weaker economic outlook could have adverse impact on claims:

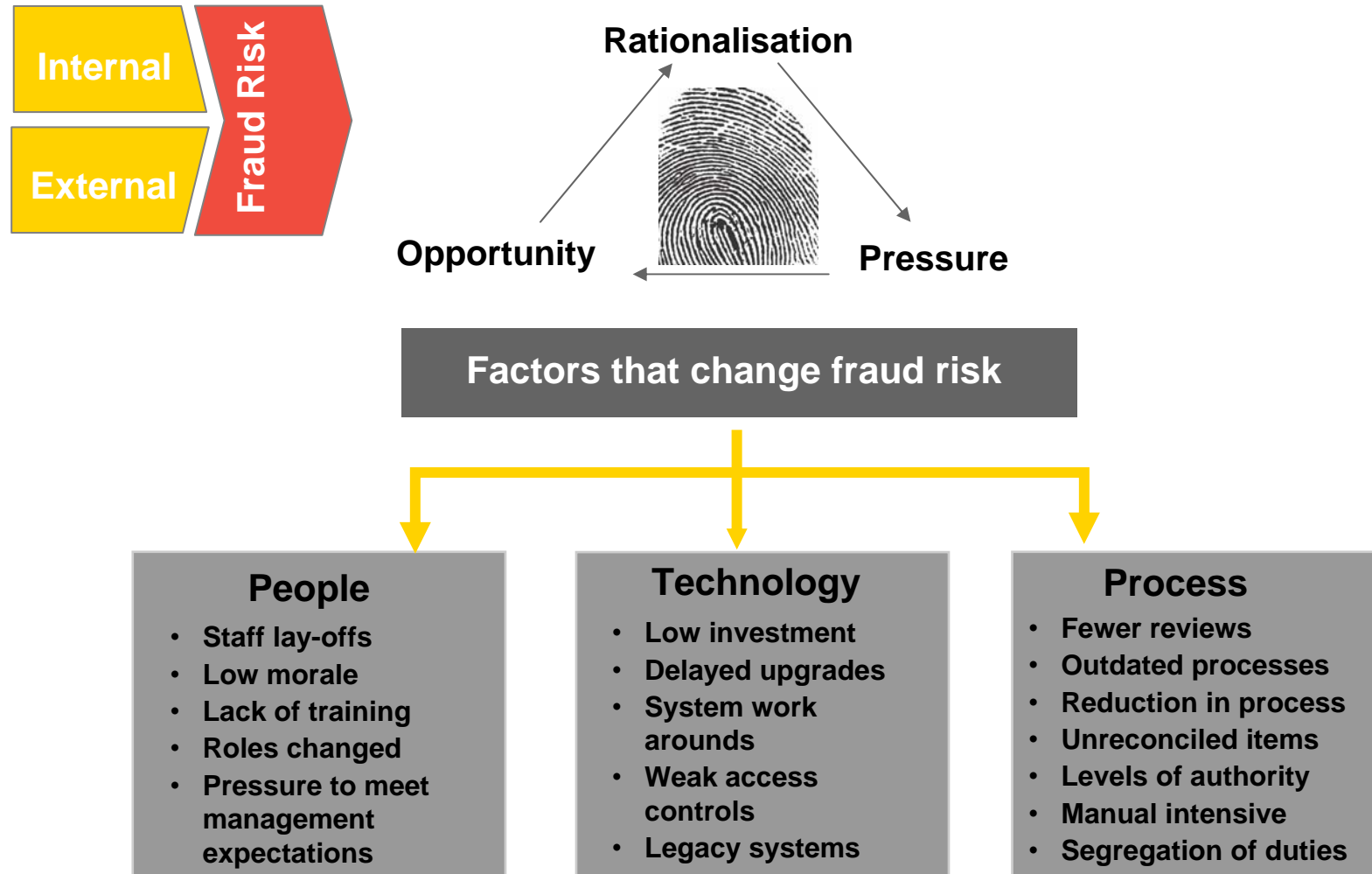
- ▶ Number of fraudulent claims increases

Source: 2008 General Insurance Survey, by Australian Equity Research – Jan 2009

Fraud is believed to be one of the most under-reported offences with less than 50% of incidents being reported to police or other authorities.

Source: Australian Institute of Criminology - 2006

Key Factors Influencing Fraud



Appearance of Fraud - Internal

'Visible'
Detected suspect
transaction



*The full extent uncovered
through investigation*

\$10k returned cheque

Incorrect address and details

Cheque did not correlate with policy holder

Payment was approved, correctly

Manuel intervention - softcopy batch e-mailed

Altered spreadsheet – post approval

Divert funds to third party accounts

Syndicate and Gambling problems

3 people arrested – various charges totalling \$750k

Recovered \$500k – enhanced controls

What we are seeing today

Generally, insurance fraud is categorised into:

- ▶ Application fraud
- ▶ Claim fraud
- ▶ Internal fraud

“Fraud is the only crime category on the increase in NSW.....these are difficult economic times”

NSW Attorney General John Hatzistergos. Mon 13 July 2009

“...On the non-life side we see more instances of fraud as a consequence of the recession...”

Source: Reactionsnet.com - 1 Jan 2009, quote from Mr Greg Carter, MD of insurance, Fitch

Economic slowdown sees more insurance fraud

Insurance investigators are catching more customers padding the value of stolen or damaged goods, committing arson, staging motor accidents or inflating car repair bills in the current economic slowdown, according to the Herald Sun 2009.

GIO Insurance and Suncorp's rejected payouts and suspicious claims have surged up to 40% in the past year.

Source: The Gold Coast Bulletin – 18 June 2009

What we are seeing

Case Study 1

Home & Contents Claim May 2009

Case Study 2

Personal Injury Claim -Travel expenses 2008/09

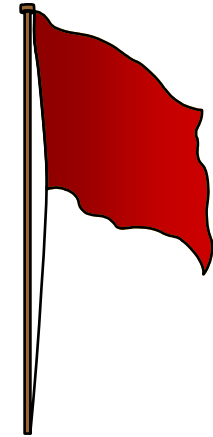
Case Study 3

Travel Insurance Claims – 2008/09

Fraud warning signs - Internal

Not an exhaustive list:

- ▶ Who's not taking holidays/working excessive hours?
- ▶ Unusual protectiveness
- ▶ Character changes in employees
- ▶ Controls delayed or not performed (unreconciled balances)
- ▶ Employees resigning without good reason
- ▶ Reliance on a single customer/supplier
- ▶ Total reliance on one person to deal with queries
- ▶ Inexperienced personnel



Warning signs – Claim Indicators

- ▶ There are literally dozens of “Red Flag” indicators
- ▶ They are not proof of fraud
- ▶ Policies and claims should be regularly screened via use of these indicators

How are insurers combating Fraud?

Management (the tone at the top)

- ▶ Identify the risks of fraud
- ▶ Design Internal Controls and procedures
- ▶ Enforce a Code of Conduct

Internal Audit Function

- ▶ Objective reviews to assess the adequacy of controls
- ▶ Investigative functions

Audit Committee

External Auditors

- ▶ Consider the risks of Fraud (ASA 240)

“...risk of fraud impacting business results and reputation increases with the changing economic conditions...”

***But** with the downturn of the economy, entities are starting to pull in the purse strings and re-prioritise their attention on other more immediate concerns, such as extending their existing credit lines, and cutting costs...”*

EY Risk Executive Forum – November 2008

Effectiveness of fraud controls

This is a comparison of the median losses at organisations that had implemented each specified fraud and corruption control with the median losses for those organisations that did not have that control.

| Control | % of Cases Implemented | % Reduction in Losses |
|--|------------------------|-----------------------|
| Surprise audits | 25.5% | 66.2% |
| Job rotation / mandatory vacation | 12.3% | 61.0% |
| Hotline | 43.5% | 60.0% |
| Fraud training for Managers / Executives | 41.3% | 55.9% |
| Internal audit department | 55.8% | 52.8% |
| Fraud training for employees | 38.6% | 51.9% |
| Anti-fraud policy | 36.2% | 49.2% |
| Code of Conduct | 61.5% | 45.7% |
| Management review of IC | 41.4% | 45.0% |

Source: Association of Certified Fraud Examiners – 2008 Report to the Nation on Occupational Fraud & Abuse – p.37

YOUR CHOICE...

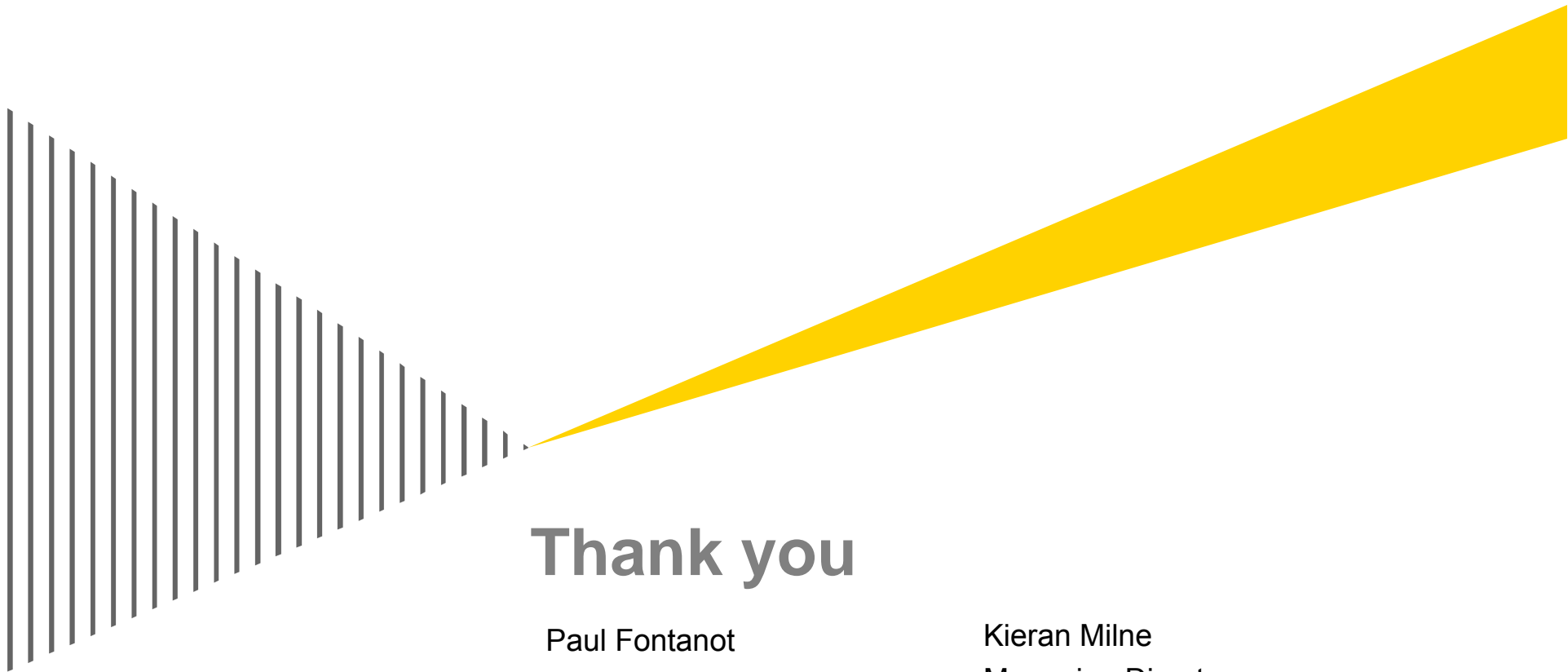
REACTIVE



PROACTIVE



"IT IS BETTER TO DRAIN THE SWAMPS
THAN TO FIGHT THE ALLIGATORS"



Thank you

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