

***Contending with fraud
in the insurance
industry***

Are you prepared?

PwC Insurance
Club EyeOpener Series

Agenda

- **2009 PwC Global Economic Crime Survey**
- **Common Insurance Fraud Schemes**
- **Fraud Prevention**
- **Forensic Technology Solutions**
- **Key Points to Remember**

2009 PwC Global Economic Crime Survey

1 - The incidence and cost of economic crime

2 - The typical perpetrator

3 - If you look for fraud you will find it

4 - Economic crime reported by type of organization and industry

Methodology

- PwC's 5th biennial Global Economic Crime Survey
- 54 countries surveyed
- 3,037 survey respondents globally
- 123 participants in North America
- CEOs, CFOs, other executives
- Participating organizations were of varying sizes and from varying industry groups

1. The incidence and cost of economic crime

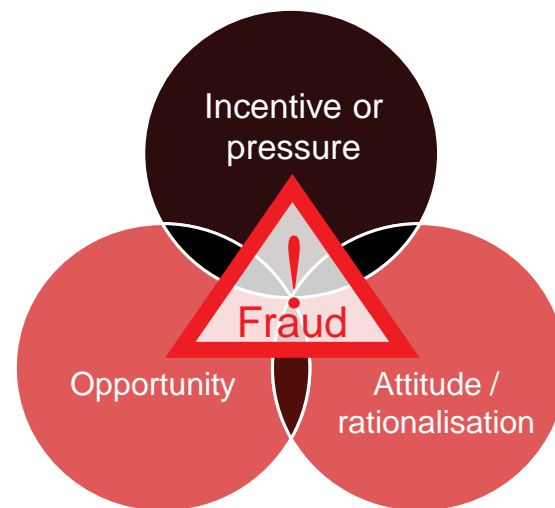
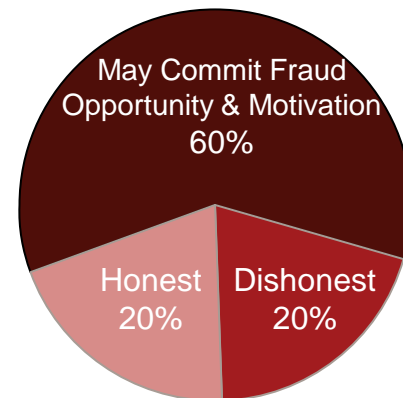
Fraud – A Significant and Growing Threat

In our survey of over **3,000 organizations** in **54 countries** **30%** of respondents were victims of economic crime in the previous 12 months

In **Canada** economic crime has risen to its **highest** level in the past 6 years.

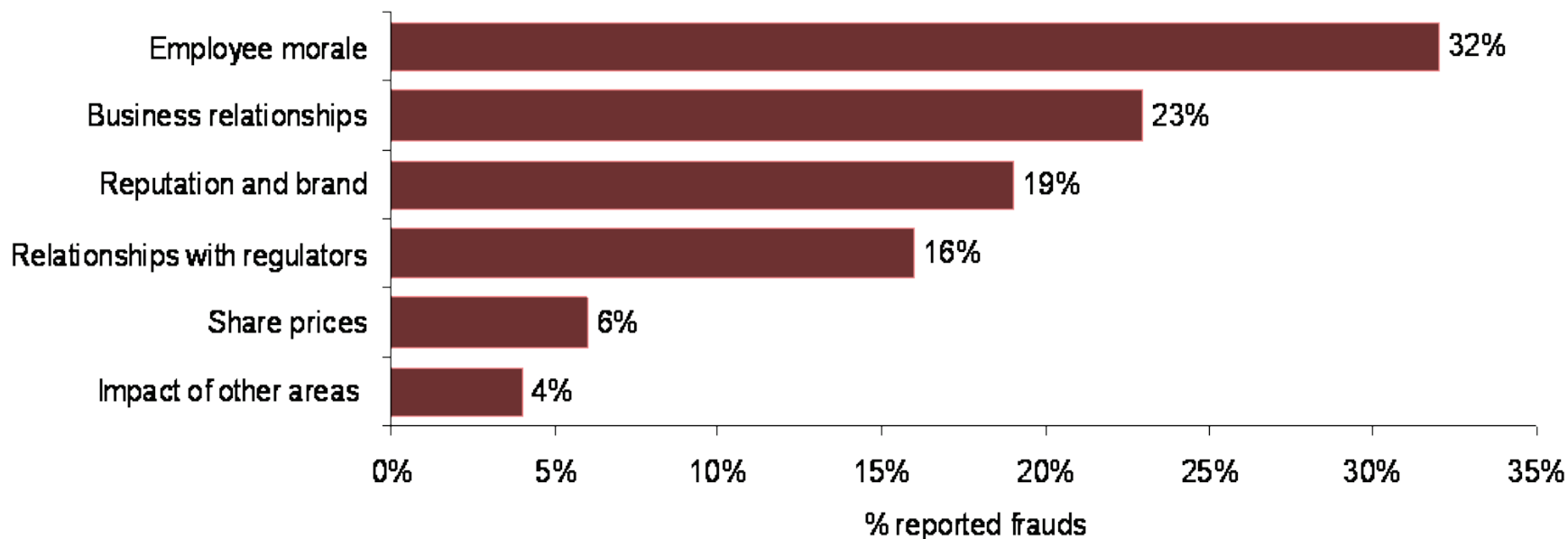
56% of Canadian organizations surveyed reported being victims of economic crime in the previous 12 months – a 10% increase from our 2003 survey

The average loss per organization from economic crime was over US \$500,000



Non-financial impact of economic crime

Fallout from fraud is not simply the direct costs - collateral damage also arises



Most respondents do not see collateral damage to cause a significant impact, perhaps because it is very difficult to quantify such costs.

2. The Typical Perpetrator

The Typical Perpetrator

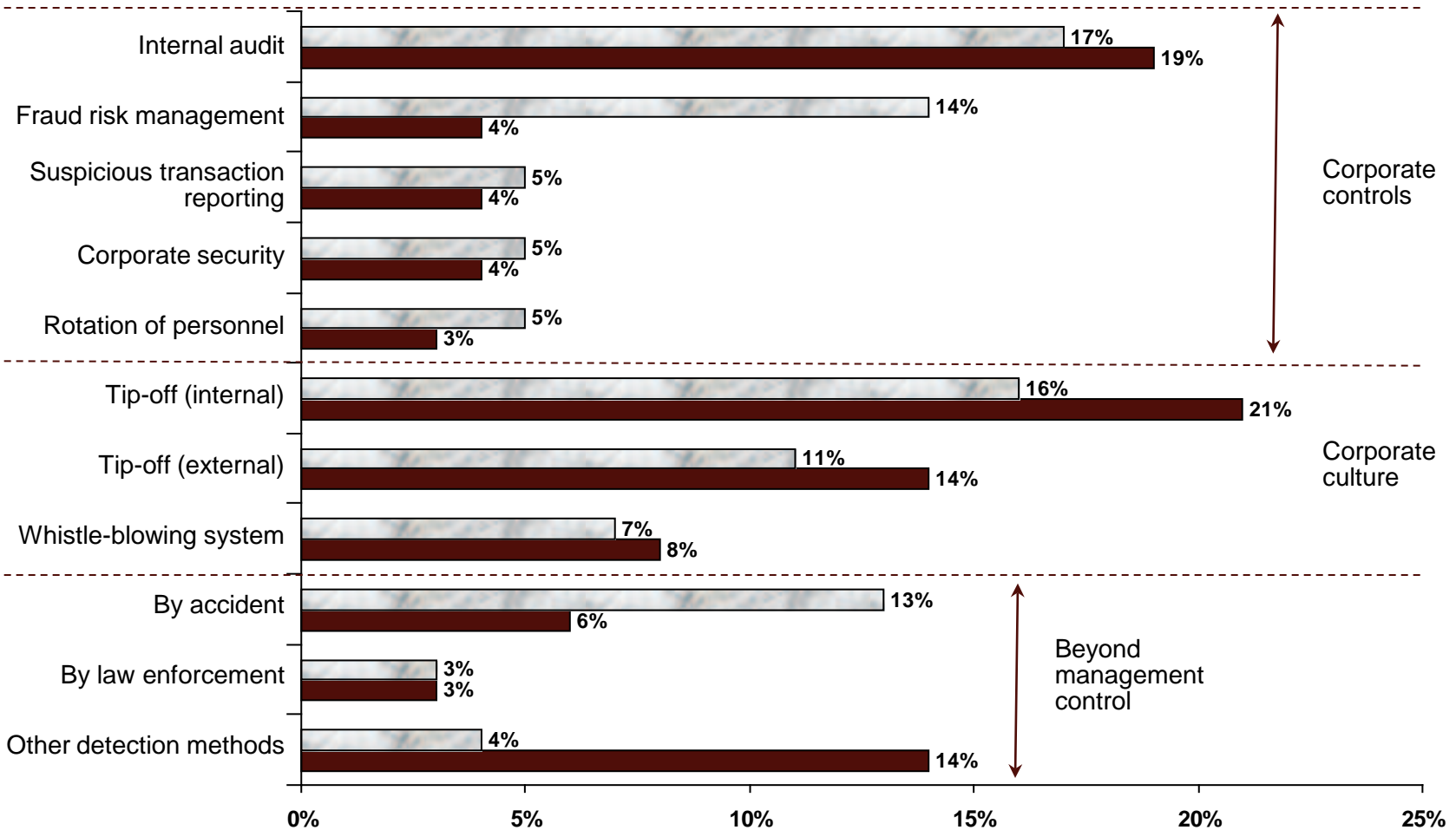
The typical profile of a perpetrator:

- Male
- Age 31 - 40
- High school level of education or less
- Had been with the company for six years or more

3. If you look for fraud you will find it

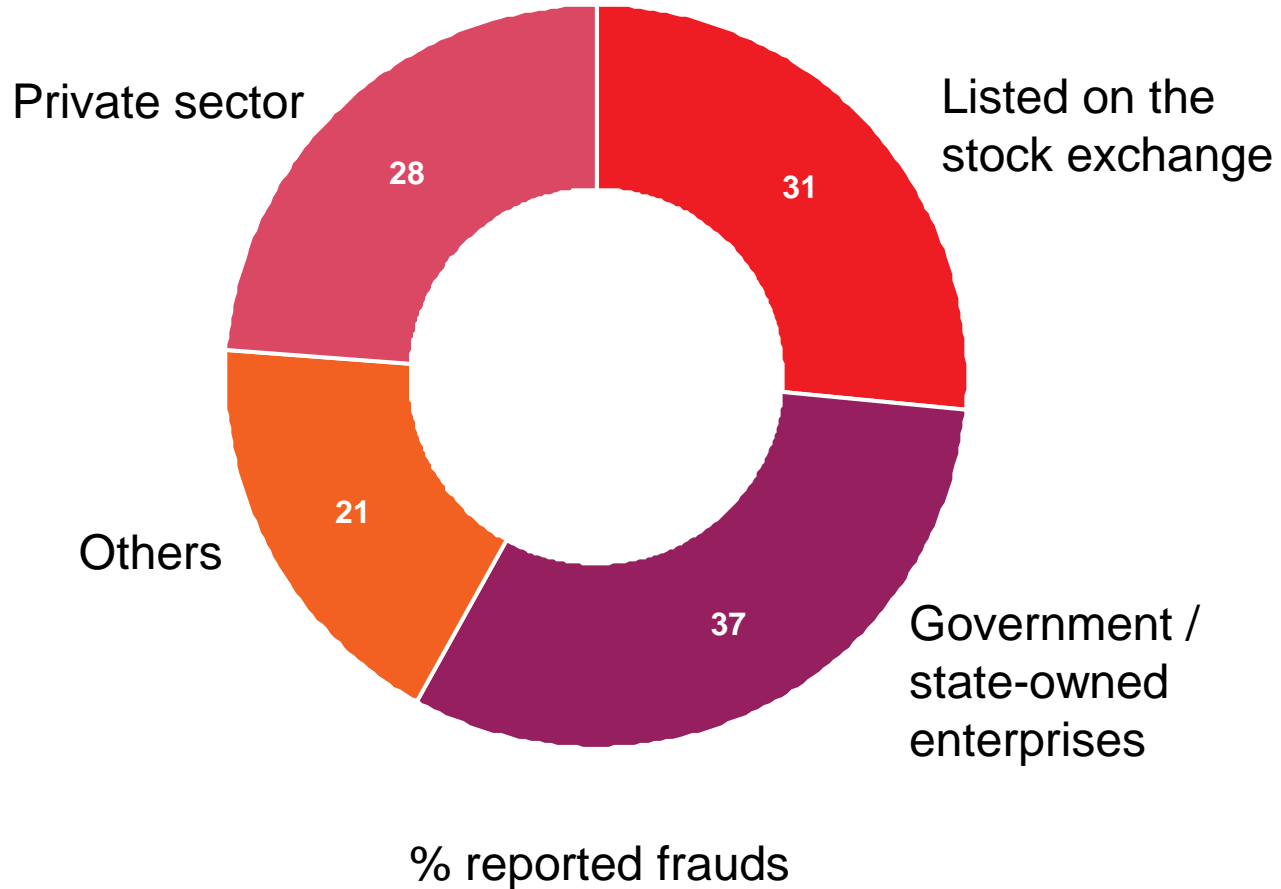
Fraud Detection Methods (Global Results)

2009
2007



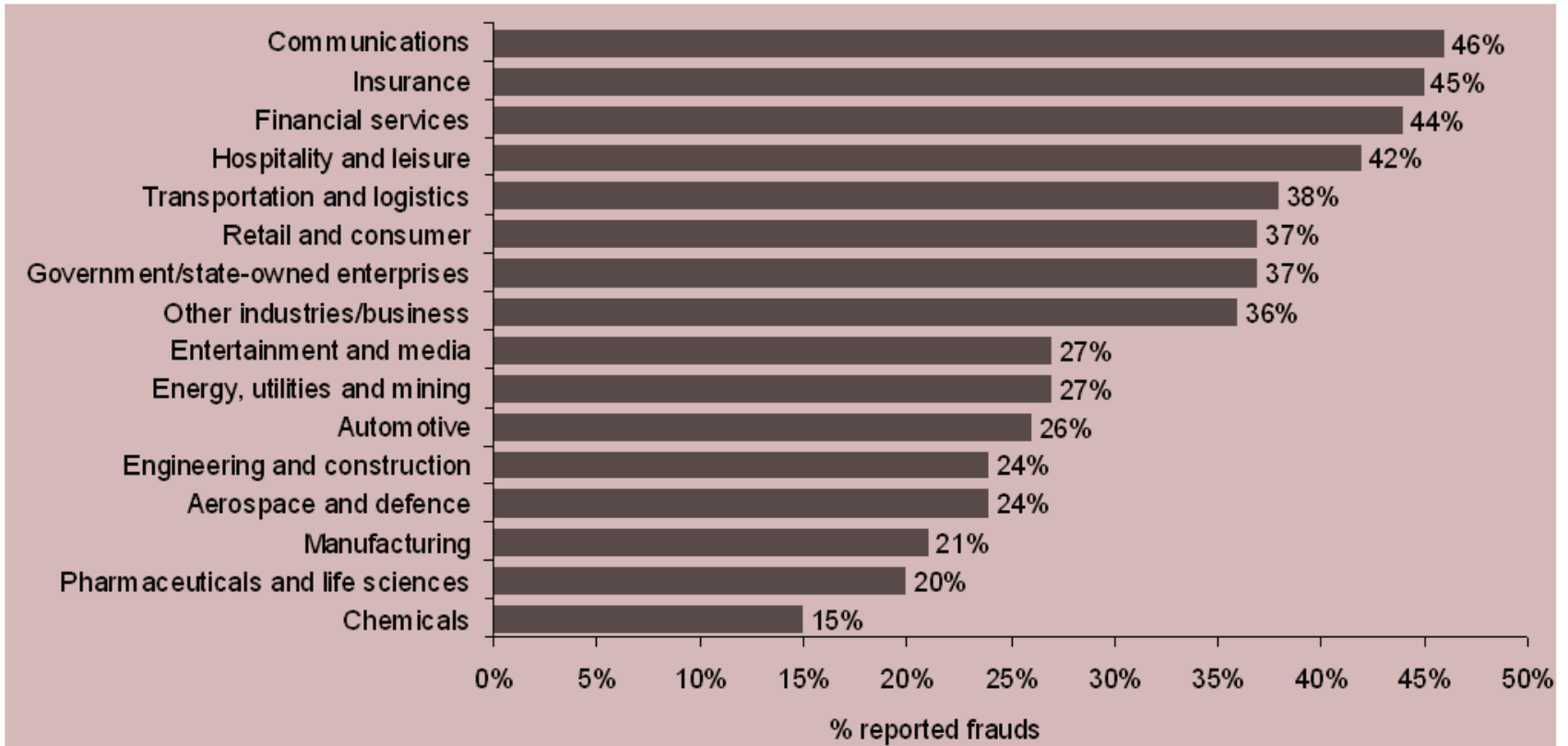
4. Economic Crime Reported by Type of Organization and Industry

No type of organization is immune....



....and no industry is immune

But some report more fraud than others.....



Common Insurance Fraud Schemes

Common Insurance Fraud Schemes

External Fraud:

- **Fraudulent claims**
- **Staged accidents**
- **Injury claims**
- **Arson**
- **Car Fires**
- **Theft of vehicle accessories**
- **Vehicle theft**
- **Vehicle repair fraud**
- **Theft from vehicle and homes**

Common Insurance Fraud Schemes

Internal Fraud:

- **Employee expense fraud**
- **Theft of cash / cheques**
- **Fraudulent vendor payments**
- **Cash receipt / receivables / premium theft of fraud**
- **Commission fraud**
- **Fraudulent sales / underwriting**

Fraud Prevention

Anti-fraud Regime

Key antifraud controls should include the following:

1. Governance – Oversight by the Audit Committee and the Board
2. Fraud Risk Assessment
3. Code of Business Conduct and Ethics; Training and Education
4. Incident Reporting Mechanisms
5. Investigative Protocol
6. Remediation Protocol
7. Hiring and Promotion Policies and Procedures
8. Management Evaluation and Testing

Anti-fraud Regime

- All components are inter-related
- Identify areas of heightened risk through fraud assessment and analysis
- Ensure processes, procedures and practices are in place to prevent, detect and react to fraud
- All components of an effective anti-fraud regime are equally important
- On going assessment, analysis, training and testing

Forensic Technology Solutions

What is Forensic Technology?

- Data Analysis
- Cyber Investigations and Digital Forensics
- E-Discovery
- Electronic Records Management and E-Discovery Readiness
- Software Asset Management
- Software Licensing Compliance

Use of Forensic Technology

- Investigative support
- Data retrieval, preservation, analysis
- User files, email, servers
- Prepare for legal proceedings

Preventative

- Data mining
- Survey of internal records to identify exceptions
- Efficient / effective analysis
- Prompts additional review investigation

Key Points to Remember

- **Fraud is prevalent within the insurance industry**
- **Impact of economic crime on reputation, brand image and staff morale can be more important than the direct financial loss**
- **Deterrence, detection and prevention of fraud is an ongoing process**
- **Insurance companies should consider the use of forensic technology tools**
- **A robust anti-fraud regime provides timely information to identify areas of risk and allow you to react and mitigate those risks**

Thank you

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***Benchmarking the
General Insurance
Industry on Fraud
Management Best
Practices***

28 April 2011

Bruce L Scott, CFE

Terra Nova Hotel, Kingston

Agenda

- **2011 PwC Jamaica Survey on Fraud Management**
 - **Methodology**
 - **Findings**
 - **Implications**
 - **Closing the gaps**

Methodology

- 9 general insurance companies in Jamaica (hit rate of 90%)
- Surveys were completed by Financial Controllers / CFOs, CEOs, Claims Managers, Operations Executive et al
- Participating companies had total gross written premium income of approximately J\$23.4B (figures were extrapolated from the Jan to Dec 2009 – Insurance Association of Jamaica numbers)
- Companies were benchmarked against 6 best practice categories for fraud management – practices taken from PwC's world class Global Best Practices database (www.globalbestpractices.com)
- A total of 30 questions across the 6 categories were included in the survey

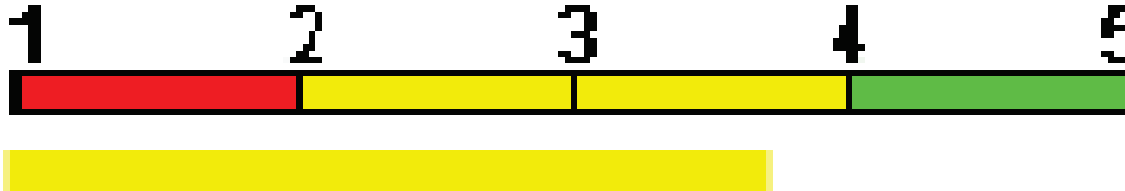
Potential Limitations

- Survey responses were received from senior individuals, but may not always have been challenged by other stakeholders in the company to further validate the assigned responses
- A few questions had one or two possible interpretations – which could have led to less to incorrect responses being given

Scope of the Survey Questions – the 6 Categories

- A. Cultivate antifraud awareness throughout the organization.**
- B. Deter fraud with robust controls and transparent business processes.**
- C. Leverage proactive fraud risk assessments to design strong antifraud controls.**
- D. Solicit employee tips and concerns about fraud and malfeasance.**
- E. Mitigate supply chain and third-party fraud.**
- F. Formalize fraud investigation and remediation procedures.**

Summary of Findings – Jamaica Industry Level



Jamaica Industry Level Rating is 3.62 (average of all 6 categories)

Implications of the Rating:

- A rating of 3.62 means there is ***medium (caution)*** risk exposure in terms of likely frauds in the local general insurance industry
- More work is therefore needed to get the score up to at least 4.0 – which would suggest a ***low (healthy)*** fraud risk environment
- Some companies fall below the average score of 3.62 and therefore would have higher fraud risk exposures and hence more work would be required
- The highest score achieved by any company is 4.13 and the lowest is 2.69
- An independent validation of the survey responses could see some scores increasing or falling to below 2.0 – which suggests a ***high fraud risk (danger) environment***

The incentive for closing the gaps and moving towards a score of at least 4.0 (healthy / low risk)

1. According to the Association of Certified Fraud Examiners (ACFE), the equivalent to 6 % of the average American company's revenue is lost due to "occupational fraud"
 1. The Insurance Association of Jamaica reported that Gross Premium Income written for the period for the industry in 2009 was J\$24.2B
 2. Assuming similar fraud rates apply to Jamaica – this would mean that J\$1.45B is lost to the local insurance industry each year
 3. This would imply that on average J\$132M is lost per general insurance company in Jamaica each year – does this seem credible or incredible?

The incentive for closing the gaps and moving towards a score of at least 4.0 (healthy / low risk)

Occupational fraud according to the ACFE is:

“The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.”

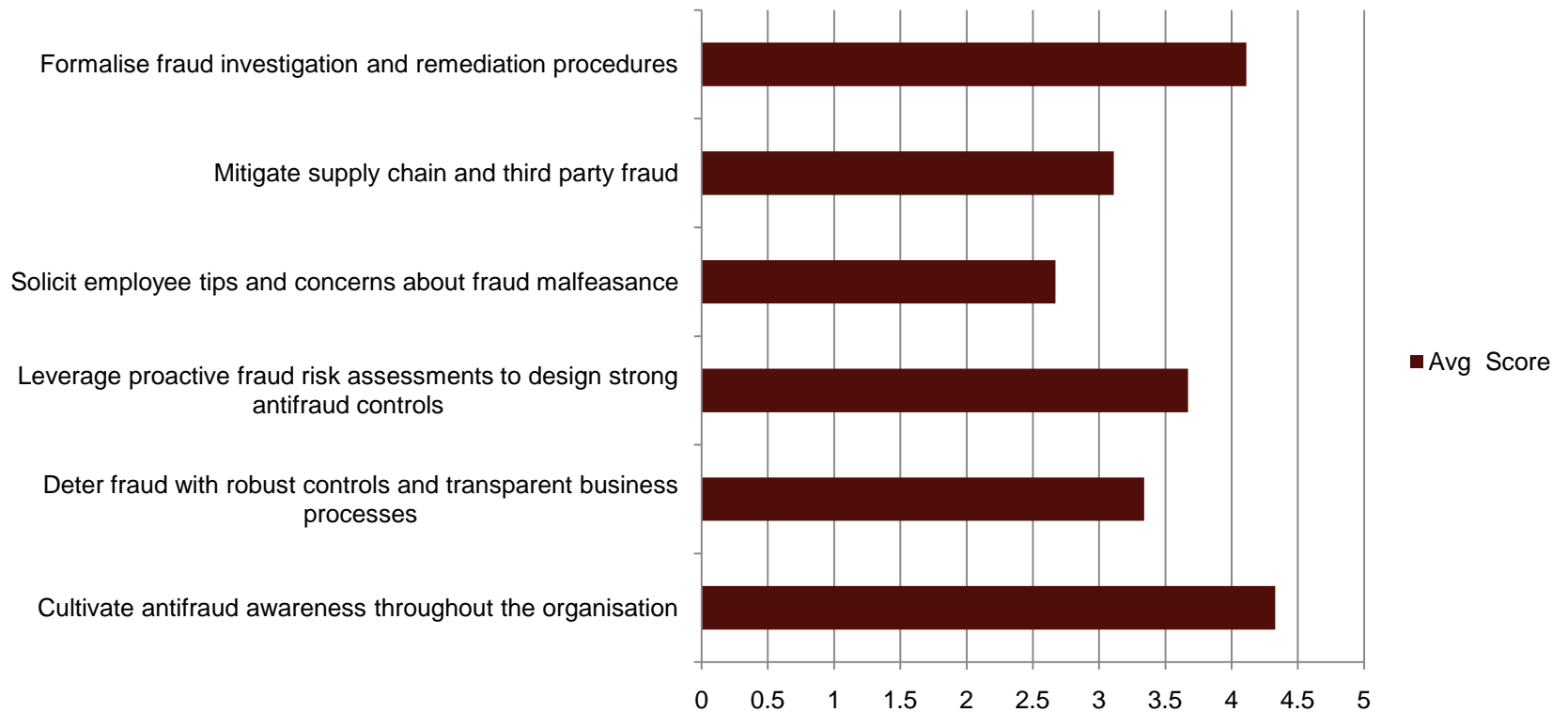
The breadth of this definition includes a wide range of misconduct by executives, managers and employees of organizations ranging from sophisticated investment swindles to petty theft.

The incentive for closing the gaps and moving towards a score of at least 4.0 (healthy / low risk)

1. What if your company, through improving its fraud management risk practices could save 10% (J\$13.2M), or 20% (J\$26.4M) or 30% (J\$39.2M) of the reputed J\$132M being lost due to fraud by the average general insurance company in Jamaica?
2. The cost of the required treatments to get you to a lower fraud risk environment is certainly likely to be less than the cost savings above
3. Even if the numbers discussed above are 50% accurate - the financial incentives to bring down your fraud risk would still be compelling!

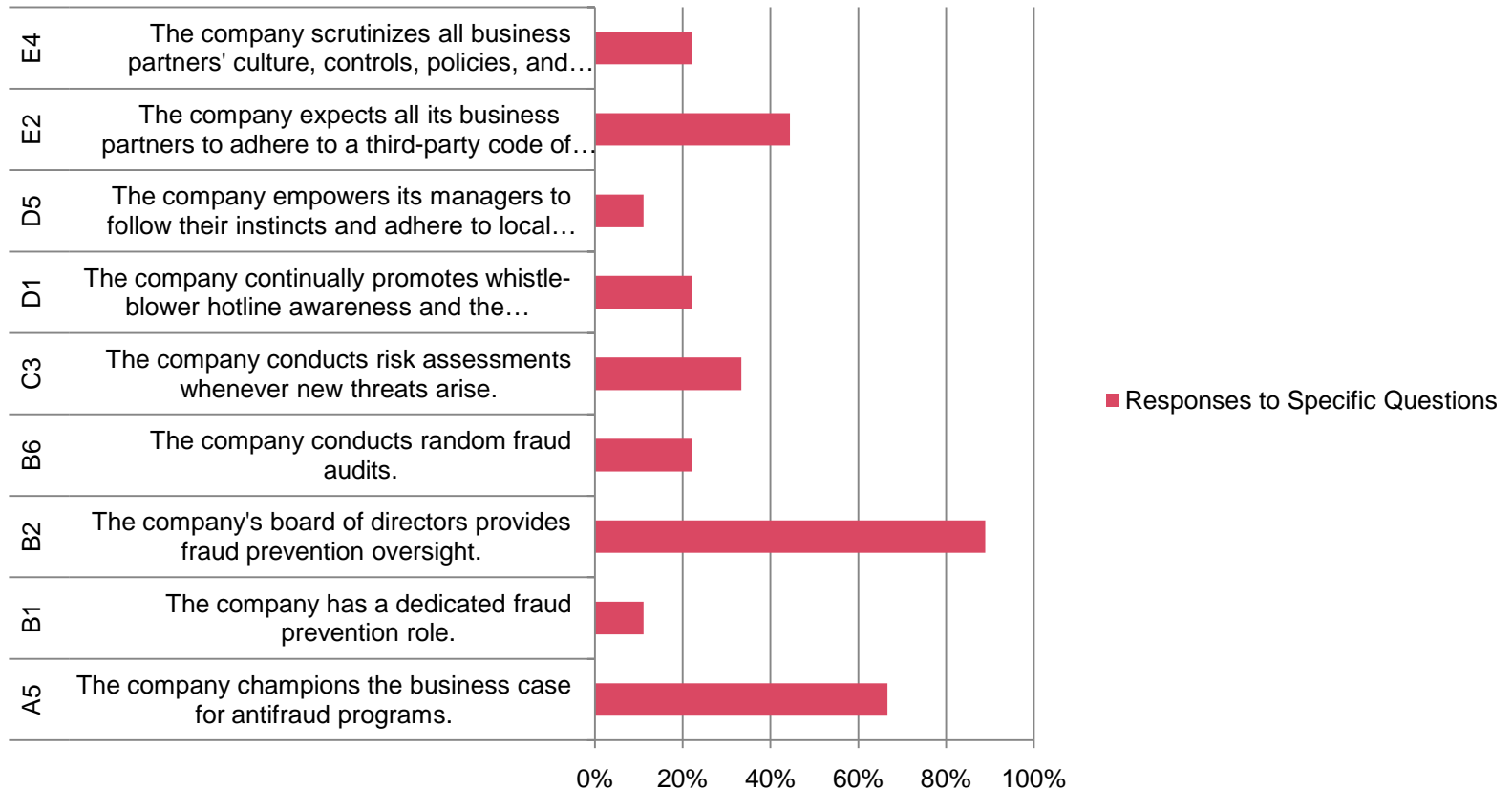
Plugging the holes that led to the 3.62 industry level risk rating

Fraud Risk Ratings by Best Practice Categories



Plugging the holes that led to the 3.62 industry level risk rating

Responses to Specific Questions



Solicit employee tips and concerns about malfeasance

The incentive for soliciting employee tip offs:

1. According to the Association of Certified Fraud Examiners (ACFE), whistle-blower hotlines are the single most effective tool against fraud. ***The 2008 ACFE Report to the Nation on Occupational Fraud and Abuse attributes 46 percent of fraud discoveries to whistle-blowers.***
2. PwC 2009 Global Economic Crime Survey reports that ***34% of fraud detection was due to tips offs*** (internal, external and whistle blower systems)

Solicit employee tips and concerns about malfeasance

Specific actions you can take:

- 1. Establish a whistle blower system** consistent with Jamaican culture (GOJ is considering whistle blower legislation – see 2008 Green paper on the subject)
- 2. Minimise barriers to whistle blower cooperation**
 - To alleviate whistle-blower concerns about confidentiality, many companies contract with ***independent, third-party organizations*** to manage their reporting hotlines.
 - They ***publicize these arrangements***--stressing the neutrality of the hotline operator--to foster greater cooperation.

Solicit employee tips and concerns about malfeasance

Specific actions you can take:

3. Minimise barriers to whistle blower cooperation

- Network, Inc., an Atlanta area ethics consulting firm says roughly 50 percent ***of hotline calls occur in the evening or on weekends***, according to a research that it did. This means:
- ***External providers typically offer 24-hour***, year-round hotline availability to accommodate individuals with ***reservations about voicing their concerns from the workplace.***
 - Should Jamaican insurance companies could use similar overseas sources due to our cultural challenges?

Solicit employee tips and concerns about malfeasance

Specific actions you can take:

4. Companies should develop a culture of doing something when the tips are received
 - DuPont ***compiles case studies from successful fraud and ethics investigations*** and ***publishes*** the information internally in "business ethics bulletins."
 - The one-page bulletins do not contain names.
 - They describe each recent misconduct case, the violated law or policy, the method of detection, ***and the punishment.***
 - The case studies also contain ***lists of lessons learned from each incident,*** including relevant training modules that apply.

Solicit employee tips and concerns about malfeasance

Cultural challenges that could pose a problem:

1. Strong aggression against informers
2. Manifested in music (openly and subtlety (“Nah sell out mi friend dem”))
3. The state not having all the resources required to adequately protect witnesses
4. History of witnesses / “informers” being killed
5. Multiple parties covering up for each other – so no one talks

Other specific actions for plugging the holes that led to the 3.62 industry level risk rating

1. Only 2 or 22% of survey respondents ***do random fraud audits*** – The global benchmark for this category is 40%:
 - These audits will serve as a deterrent to potential fraudsters
 - Audit scope is the high-risk areas of the organization, as identified by whistleblower complaints, previous audits, and the results of fraud risk assessments

Other specific actions for plugging the holes that led to the 3.62 industry level risk rating

2. Only 1 or 11% of survey respondents say their companies have a ***dedicated fraud prevention role*** :
 - Unlikely to be a full time job – can be added to an existing role (e.g. it could be added to the Compliance Officer’s job)
 - Provides guidance in identifying and reporting fraud in the company – leads investigations, works closely with internal audit and leads fraud risk assessments
 - This person reports to the audit committee in order to maintain his independence

Other specific actions for plugging the holes that led to the 3.62 industry level risk rating

3. Alcoa's code of conduct is written at an eighth-grade reading level to help ensure everyone understands the code of conduct
4. Barclays Bank PLC, uses interactive, e-learning modules to promote antifraud awareness. The e-learning modules are tailored based on fraud specific to banking
5. Lockheed Martin Corporation (a defence contractor) – gives the Chairman's Award for "Highest Standard of Ethics & Business Conduct"
 1. One winner was recognized for ***deleting a competitor's proprietary information*** that had been inadvertently e-mailed by a government customer.
 2. Another winner was a vice president ***who turned down a bribe request*** from a foreign official and removed Lockheed Martin from the bidding process for a multimillion-dollar defence contract
 3. In addition to a crystal bowl engraved with Lockheed Martin's business principles, the recipients were ***featured in company communications*** and recognized at local events.

Conclusion

1. The following represent quick wins for your general insurance companies to start reducing its fraud exposure:
 1. Implementing a culturally sensitive tip off or whistle blower system
 2. Assigning a responsible person to the fraud prevention role
 3. Conducting periodic random fraud audits over inherently high risk areas

Thank you

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Fraud Risks & Controls Reviews

How our proven methodology to
managing fraud risks can help your
business

Presented by: Carolyn Bell-Wisdom, CFE

Objectives

To reconfirm the need for proactive and structured fraud risk management and help you understand the framework which you may apply to fight fraud within your organisation and industry

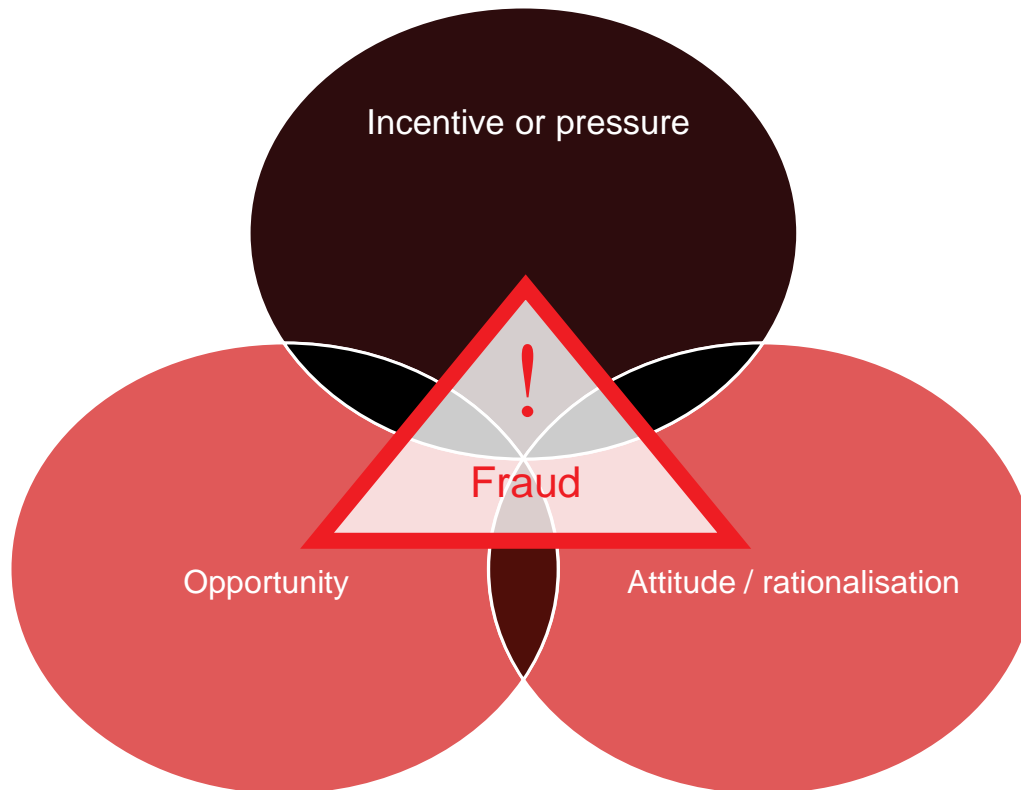
To better inform you of PwC's capabilities in fraud risk management and to make it clear how we can help your business

Agenda

- **A Proactive and Structured Approach**
- **PwC's Proven Methodology: Fraud Risks and Controls Reviews:-**
 - **Fraud Risk Assessments**
 - **Anti-fraud Controls**
 - **Fraud Audits**

A Proactive and Structured Approach

The Fraud Triangle



A Proactive and Structured Approach

- Direct costs (losses, cost of investigation and litigation)
- Indirect (employee morale, business relationships, reputation and brand, regulatory scrutiny, etc.)

1

**Avoid or minimise
the cost of fraud**

- Audit, financial risk management – 31%
- Tip offs and whistleblower mechanisms – 27%
- By accident – only 13%

2

**A proactive and
structured approach
works!**

A Proactive and Structured Approach

Components of a Proactive and Structured Approach

People

Process

Technology

A Proactive and Structured Approach

Components of a Proactive Approach: People

Does the company have the right human resources with the:

- Knowledge (schemes, controls, detection procedures)?
- Skills (assess, prevent, detect, investigate, remediate)?
- Experience?

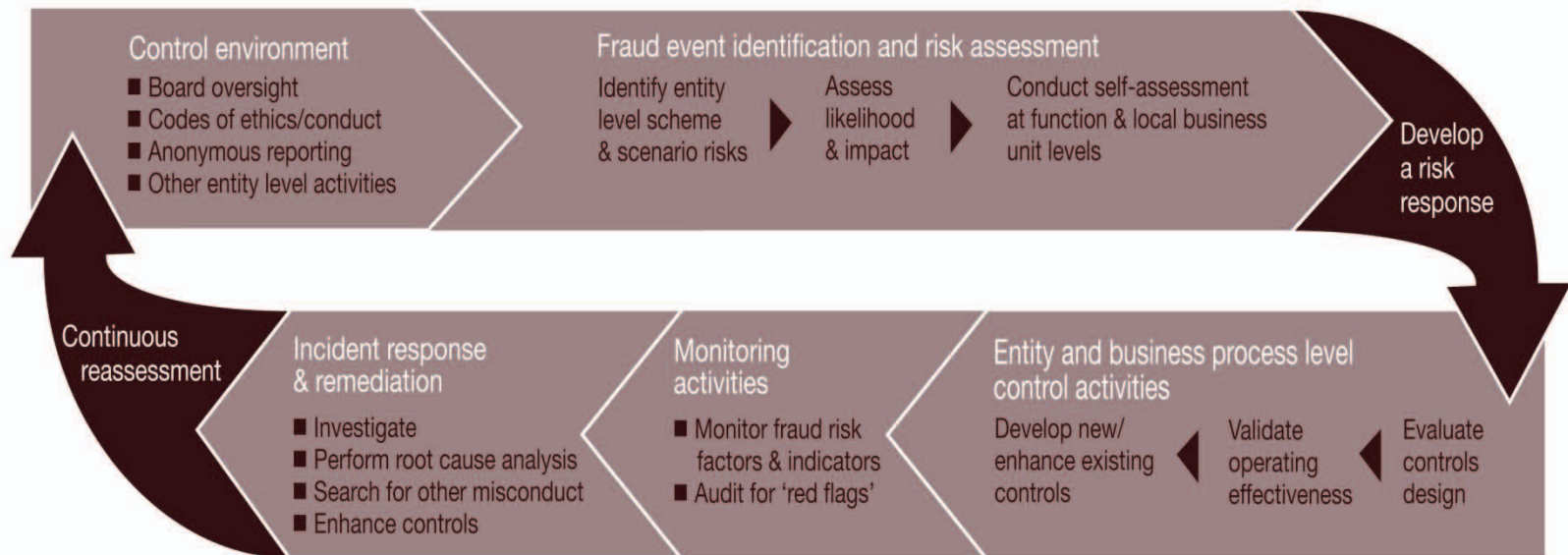
How strong are your resources at:

- Business unit & process level (First Line of Defense)?
- Controller & Finance (Second Line of Defense)?
- Legal, Audit, Compliance (Third Line of Defense) ?

A Proactive and Structured Approach

Components of a Proactive and Structured Approach: Process

Figure 1:
PwC antifraud framework



A Proactive and Structured Approach

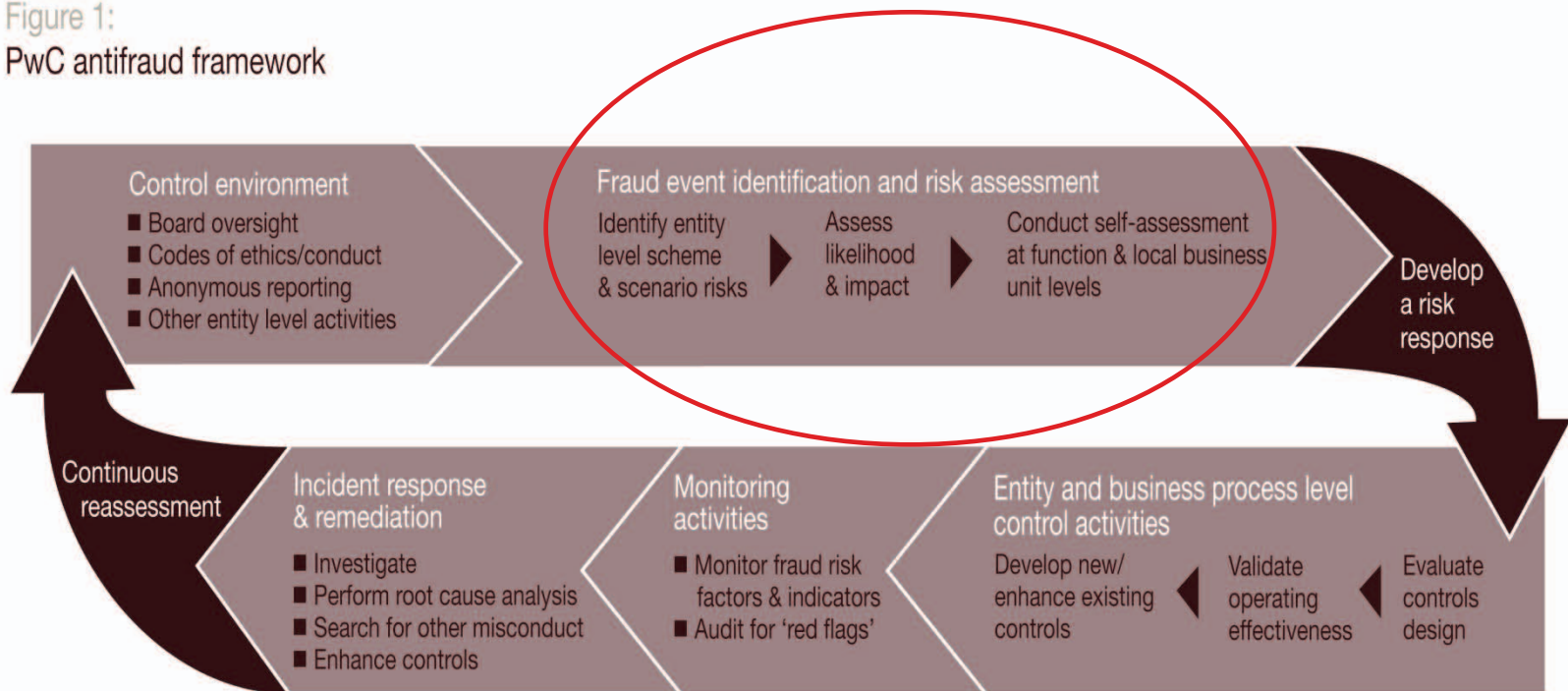
Components of a Proactive and Structured Approach: Technology

- Tools for data analysis
- Investigative tools

A Proactive and Structured Approach

Components of a Proactive and Structured Approach: Process

Figure 1:
PwC antifraud framework



Fraud Risk Assessments

Why Conduct a Risk Assessment?

- Save money by avoiding disaster
 - Invest resources to eliminate events that would cause major adverse impact
- Save money by helping the company make judicious use of finite resources for risk mitigation
 - Keep organisation from using resources to control events with a very low frequency of occurrence
 - Instead of seeking funds to "control" high probability events that cannot be effectively mitigated, risk assessment redirects investment into conducting fraud audits

PwC's Proven Methodology: Fraud Risk Assessments

1. Schemes and/or scenarios:

- Consider key participants and scheme/scenarios components
- Consider vulnerability to circumvention through management override, collusion, unauthorised access

2. Anti-Fraud Controls

3. Red Flags

PwC's Proven Methodology: Anti-Fraud Controls

1. Why good operational controls \neq good anti-fraud controls
2. Assessing anti-fraud controls – prevention, detection
3. Cost of anti-fraud controls
4. Need for fraud audits

PwC's Proven Methodology: Fraud Audits

- 1. Fraud auditing vs. forensic investigation (“Firefighters” vs. Fire Safety Experts)**
- 2. Focus on areas where the impact of fraud would be high and the anti-fraud controls are non-existent or are weak**
- 3. Maximise the use of technology**
 - Data analysis
 - Identify the red flags
- 4. Perform further data and documentation analysis**

How Can this Methodology Help You

Evident from our past successes applying it:

- Sales agent fraud audits success story – traditional “hot spot”; after audits - improved cash flows, no incidents of fraud or surprises, alerted quickly to red flag behaviours or situations, acts as a deterrent due to constant monitoring
- More robust anti-fraud controls and improved exception reporting
- Better appreciation of exposures and related red flags
- Improved learning/knowledge transfer (IA, management)
- ^{PCC} Some “protection” if something major does go wrong

Why PwC?

- Vast resources: Local team and overseas resources – e.g. we have partnered with PwC Canada and PwC New York for assignments, etc. in the past
- Experience: We have vast experience in the performance of fraud risks & controls reviews and fraud investigations.
- Industry knowledge: Our Jamaica team members have specific and in-depth general insurance experience.
- Multi-skilled local team: Our Jamaica team includes 5 CFEs who possess other important qualifications including Certified Information Systems Auditor (CISA), Certified Internal Auditor (CIA), Chartered Accountant
- Expertise and multi-territorial experience in the use of supporting tools – e.g. ACL, Encase

Objectives

To reconfirm the need for proactive and structured fraud risk management and help you to understand the framework which you may apply to fight fraud within your organisation and industry.

To better inform you of PwC's capabilities in fraud risk management and to make it clear how we can help your business

Thank you!

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Your questions...