

Insurance Fraud: Factors, Identification Problems, Counteraction

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Abstract: The study is devoted to complex research of insurance fraud problems. As a result of research, it is proved that the branch of property insurance is the most demanded among the Russian swindlers. On the basis of researcher's social research results factors of insurance fraud in the considered insurance market segment of the Stavropol City are revealed. Ways of overcoming and reduction illegal actions of insurers within implementation of the insurance contract are reasoned. For research objective achievement the essence of insurance fraud is considered by researchers, examples of economic damage of large insurance frauds commission in Russia and abroad are given; insurance fraud commission possibility facts are analyzed; problems in this segment are revealed and ways of their solving are planned. In research the phenomenon of insurance fraud in Russia and abroad is analyzed by means of comparative and analytical methods. Results of the conducted population survey of the Stavropol City in relation to insurance fraud in property insurance are presented. The directions of insurance fraud facts minimization by means of creating and using an integrated approach to solution of this problem are proved.

Key words: Insurance fraud, economic damage, directions of counteraction, fraud facts, property insurance

INTRODUCTION

Due to the unstable political and economic situation in world economy the illegal kinds of activity allowing criminals to profit by means of roguish schemes development and implementation which find the application in many branches of social activity, gain ground. But most of all it is observed in the financial and economic sphere. Insurance branch is not an exception, it is most strongly subject to fraud because of temptation to illegally receive insurance compensation.

INSURANCE FRAUD PROBLEM ECONOMY

The fraud problem in the sphere of insurance activity is one of significant for all subjects of the insurance market today. The exact losses statistics of fraud in the Russian Federation is absent, however, according to experts and insurers, scales of this phenomenon are huge (Rusetskaya, 2009). Now there are more than two hundred ways of crimes commission in the insurance sphere which essence of commission depends

on a insurance type, forms of its carrying out, objects and subjects of the insurance transaction, ways of insurance compensation payment.

Today crimes in the sphere of insurance became, really, the most "national" type of crimes as 80% of the specified crimes are made by people having no prior criminal record and having committed no prior illegal actions.

In Table 1 only single examples of insurance fraud which led to huge damage to all insurance market participants are given.

Apparently from the data presented in Table 1, abroad as well as in domestic practice huge losses were due to not only the fraud actions by insurers and the third-party organizations but also by the crimes committed by the management and the staff of insurance companies in relation to clients, connected with understating the insurance compensation sum, unreasonable increase in loss settlement term, refusal in payment referring to ambiguity of the contract or insurance rules. Similar crimes cause damage to both insurance company and its shareholders, clients and the state (Kotlovsky and Alyoshina, 2013).

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Table 1: Examples of large insurance frauds different types

| Years | Inflicted damage | To whom the damage is caused | Who committed the fraud | Fraud subjects |
|-----------|---|---|--|--|
| 1980-1990 | The 8 billion dollars USA (Wei, 2003) | Investors-clients of the company | Management of Prudential, Securities Incorporated (Department of Prudential Insurance Company of America), USA | Granting false information to investors, taking bribes from partners whose actions and shares were on sale |
| 2000-2001 | Over 5.3 billion dollars USA. The state covered losses on 680 million dollars USA | Shareholders, clients and creditors companies bankruptcy of the company | Management of HIH Insurance, Australia | Violations of the law on information disclosure and providing financial statements |
| 1999-2010 | 1.5 billion pounds sterling (a penalty in favor of the company shareholders), 40 million pounds sterling (legal cost) | Shareholders of the company | Management and employees of equitable life insurance society, Great Britain | Distortion of the financial reporting and granting false information to shareholders |
| 2011-2012 | 900 million rubles | Budget of the Russian Federation | Management of Obligatory Medical Insurance Fund (OMIF), Russian Federation | Violation of the law on placement of works number performance orders. Inappropriate expenditure of budgetary funds |
| 2011 | 500 million rubles | Budget of the Russian Federation | Organized criminal group (including the deputy of General Court, branch SK "Basque") 3, the Russian Federation | Plunder of a subsidy for crops insurance in Altai Krai, the conclusion of fictitious insurances contracts |
| 2007-2012 | 279 million dollars USA | More than ten private insurance companies | Organized criminal group (including owners of clinics, doctors and lawyers), USA | Roguish schemes in car insurance |

FACTS ANALYSIS OF INSURANCE FRAUD COMMISSION OPPORTUNITIES

Having analyzed a number of approaches to insurance fraud problem in Russia and abroad, we consider that the most successful interpretation of this phenomenon is following: “insurance fraud is understood as the illegal behavior of insurance contract subjects directed on the insurer receiving insurance compensation by deception or breach of confidence or introduction of smaller than normally necessary risk analysis, an insurance premium (insurance premium) and also concealment of important information during conclusion or in the period of insurance validity or refusal of the insurer of payment insurance compensation without due bases or guarantees, following from the law and rules of insurance, therefore, subjects of the insurance contract have an opportunity to illegally and gratuitously turn it to their own favor”.

In general we agree with this definition but we consider necessary to add that in the insurance transaction participate not only subjects of the insurance contract (the insurer, the insured, the beneficiary) but also other persons (appraisers, average commissioners, employees of service stations, lawyers, physicians, etc.) and therefore, it is necessary to understand illegal actions of all the insurance transaction subjects on any stage of the insurance conclusion and validity as insurance fraud.

The conducted research confirms that insurance fraud can be directed both against the insurer and against the insured and to analyze possibility of insurance fraud commission facts, in our opinion, it is expedient to view them separately on each stage of the insurance transaction (Fig. 1).

In the criminal code of the Russian Federation up to 2012 there was no such concept as “insurance fraud” but because of a large number of crimes in the sphere of insurance changes were made to the Code, in particular sub-paragraph 5 of Article 159 of the criminal code of Russian Federation “fraud in the sphere of insurance” was added where accurate definition is given to insurance fraud is a plunder of someone else’s property by deception concerning a loss occurrence and equally in the amount of the insurance compensation which is subject to payment according to the law or the contract to the insurer or the other person. In Table 2, we presented legislative norms regarding insurance fraud in various countries.

In the world there are two main models used by insurance swindlers. The first model is common for USA and Canada where fraud prevails in medical and personal insurance. The second model is observed in Europe and is common for Russia where the facts of insurance fraud prevail in the sphere of property insurance, including car insurance.

| Insurance fraud | |
|--|--|
| Directed against the insurer | Directed against the insured |
| <p>Preparatory stage of the insurance transaction:</p> <ul style="list-style-type: none"> • Non-compliance with an order of carrying out competitions, tenders and auctions on insurance products advance • Violations in the sphere of advertising in the course of insurance products advance • Violation of the non-price competition principle on various insurance market segments • Return (partially or in full insured sum) as a commission from the transaction to the insured | |
| | <ul style="list-style-type: none"> • Unreasonably overestimated tariff rates • Obviously "vague" formulations of insured events in rules of insurance |
| <p>The insurance transaction conclusion stage:</p> <ul style="list-style-type: none"> • Arrangement of the insured and insurer's representative to conclusion of the insurance contract • Conclusion of the insurance contract with the person not having insurance interest • Full or partial assignment of insurance premiums by insurance agents | |
| <ul style="list-style-type: none"> • Providing obviously false data, when determining risk degree • Insurance sum establishment higher than the valid project cost of insurance • Conclusion of the insurance contract for actually nonexistent object • Conclusion of the contract after the actual loss occurrence • Double insurance | <ul style="list-style-type: none"> • Non delivery of insurance rules • Issue and sale of invalid insurance policies |
| <p>The contract support stage:</p> <ul style="list-style-type: none"> • Violation of the insurance rules • Non providing the known considerable changes in circumstances to the insurer • The request for services which are not provided by the insurance contract and their receiving | |
| <p>Compensation stage:</p> | |
| <ul style="list-style-type: none"> • Deliberate actions directed on loss occurrence • Obviously false data on loss occurrence or its distortion • Performance or imitation of insured event • Presentation of the requirement for compensation of property damage which for the moment and actually did not take place as loss occurrence • Substitution of insurance object or its parts • Presentation of invalid documents in confirmation of insured event | <ul style="list-style-type: none"> • Presentation of claims to the insurer in violation of insurance premiums payment terms or filing the application on insurance event approach • Investigation non-compliance with terms of insurance event circumstances • Understating of the real damage extent |

Fig. 1: Options of insurance fraud with allocation of the insurance transaction stages

Table 2: Legislative norms regarding insurance fraud in various countries

| Countries | Articles | Contents of the law |
|-----------|-------------------------------------|---|
| Sweden | Criminal Code, Article 11 Chapter 9 | Provides personal responsibility for preparing to commit fraud for deception of insurance community or with other roguish intentions will cause bodily harm to the insurer or other person or will cause damage to the property belonging to insurer or other person |
| Austria | Criminal Code, Article 151 | Prescribes custodial sanction for a period up to 6 months or a fine for deliberate destruction or damage of the insured property |
| China | Criminal Code, Articles 183 and 198 | Prescribes punishment for the crimes committed by employees of insurance company on the organization of insured event and assignment of insurance payment (imprisonment up to 5 years) and Article 198 establishing responsibility for insurance fraud from the insured (the most rigid punishment, over 10 years of imprisonment) |
| Bulgaria | Criminal Code, Article 213 | Prescribes punishment for destruction or damage of the insured property |
| Poland | Criminal Code, Article 298 | Provides criminal responsibility of the one who for the purpose of receiving compensation under the insurance contract causes the incident which is the basis for compensation payment |
| Russia | Criminal Code, Article 159.5 | Prescribes punishment by penalty at the rate of hundred twenty thousand rubles or at a rate of salary or other income condemned for the period up to 1 year or obligatory works for a period up to 360 h or corrective labors for a period up to 1 year or restriction of freedom for a period up to 2 years or forced labor for a period up to 2 years or arrest for a period up to 4 months. The same act made by a group of persons by previous concert and is equal with causing a significant damage to the citizen is punished by a penalty at the rate of three hundred thousand rubles or at a rate of salary or other income condemned for the period up to 2 years or obligatory works for a period up to 480 h or corrective labors for a period up to 2 years or forced labor for a period up to 5 years with restriction of freedom for a period up to 1 year or without that or imprisonment for a period up to 4 years with restriction of freedom for a period up to 1 year or without that |

RESEARCH ON THE POPULATION MOODS OF STAVROPOL KRAI (RUSSIA) TOWARDS FRAUD FACTS IN THE PROPERTY INSURANCE SPHERE

The sphere of population property insurance belongs to a voluntary insurance type that is based on the voluntary conclusion of the insurance contract of the insured with insurance company. However, property insurance of the population can be considered from two absolutely different positions. On one hand, if the insured decided to insure the apartment, the house, internal finishing, the engineering equipment or household property from possible damage and risk, this property insurance is voluntary since obligation of these objects insurance is not specified in any normative legal acts. However, if to consider this question on the other hand, the insured can also insure the vehicle which is also part of his property but in this case insurance gets binding character as the insured has to sign the insurance contract concerning the motor vehicle liability before the third parties. Therefore, in the field of population property insurance it is necessary to consider all property of the population in general from the objective point of view.

Fraud in the field of property insurance represents a specific form of illegal legal act in which property interests which are connected with use, possession and order of all types of property (Rusetskaya, 2010) become object of swindlers. Within social research of the population conducted by the researcher in the city of Stavropol in fall of 2015, the question was asked to respondents: “in what branch of insurance in your opinion, fraud facts take place most often”? The 30% of respondents answered that in the field of property insurance (Fig. 2) but thus 38% recognized that most of all insurance frauds cases occur in insurance of motor transport as in insurance of the CASCO (car property insurance) and in insurance of the OSAGO (obligatory insurance of motor vehicle liability). Thus, from year to year insurance fraud in the field of property insurance gains all new steam, increasing quantity of various forms and types of fraud for receiving insurance compensation at approach of fictitious insured event.

Currently, there is already a set of various forms of insurance fraud in property insurance which demand settlement of insurers activity in order to avoid unreasonable payments from insurance company. Possible forms and types of insurance fraud in property insurance are presented in Table 3.

The most frequent form of fraud in property insurance is artificial overestimate of the property cost. The matter is that the insured sum in this branch cannot exceed the valid property value on the insurance contract date conclusion and therefore insured to increase this insured sum and as consequence the insurance compensation, increase the cost of the property by its artificial overestimate, i.e., assess the property of someone else, documents on this property which do not belong to the insured (Rusetskaya, 2010) are shown.

Further, the question was asked to respondents: “do you consider it necessary to demand greater monetary compensation from insurance companies by artificial overestimate of the property cost?” And 23% answered yes, everyone does so, however, 33% of the respondents answered they consider this fact unacceptable. The 44% of respondents could not answer this question. In our opinion it is connected with rather low insurance literacy in our region. People simply do not know what “insurance cost”, “insured sum”, “risk limit”, “franchise”, “system insurance compensation” and many other things mean.

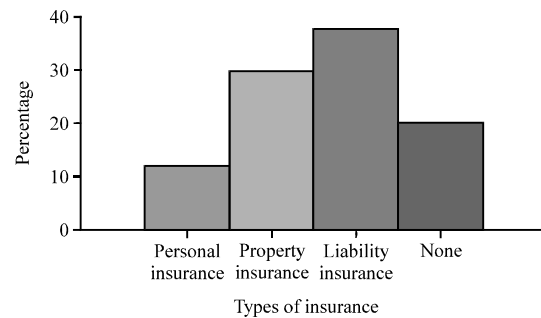


Fig. 2: Results of social research concerning emergence of the fraud facts in various insurance branches

Table 3: Forms of insurance fraud in property insurance

| The general forms of insurance fraud in citizen property insurance | Specific forms of insurance fraud in motor transport insurance (CASCO, OSAGO) |
|---|---|
| Overestimate of property value | Registration of the policy after road accident |
| Registration of policies after a loss occurrence | Performance of accident, stealing the vehicle |
| Conclusion of the insurance contract for actually nonexistent object | Double insurance and double compensation |
| Simultaneous insurance in various insurance companies | Addition of earlier received damage at road accident emergence |
| Destruction of the insured property for receiving insurance compensation | Conscious drawing damages |
| Providing obviously false data important for definition of risk degree, information concealment | Faking the OSAGO policy and entering false data into it |
| Forgery of documents, policies, insurance contracts | Falsification of technical or medical expertize results |

The analysis of the Russian experience and survey we conducted confirms that on the first place on number of insurance frauds in Russia the car insurance stands. Thus, quantity of fraud cases with participation of the vehicle many times increased with OSAGO appearance, its standard and legal regulation of receiving compensation on obligatory insurance of motor vehicle liability. The >55% of the respondents, consider that OSAGO appearance in the insurance market only aggravated situation as this system demands a large number of completions.

When carrying out the poll more than a half of respondents faced the facts of insurance fraud with participation of the vehicle in the most part from which they happened to participate, be present at an addition of earlier received damage in road accident (37%), also large number of fraud schemes occurs because of fictitious road accidents (26%) (Fig. 3).

Also the question was asked, whether the insurance fraud is common for insurance in Russia ingeneral. The 54% of respondents answered that they consider this act

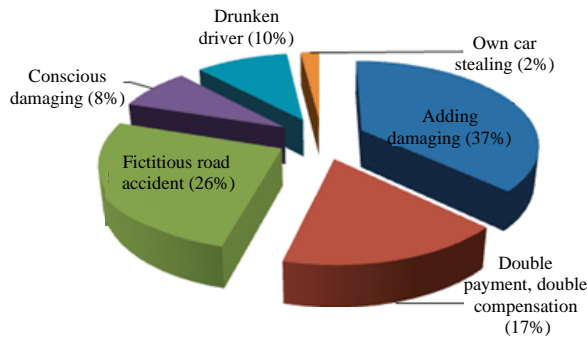


Fig. 3: Results of the population social research concerning forms of emergence of the fraud facts with the vehicle participation

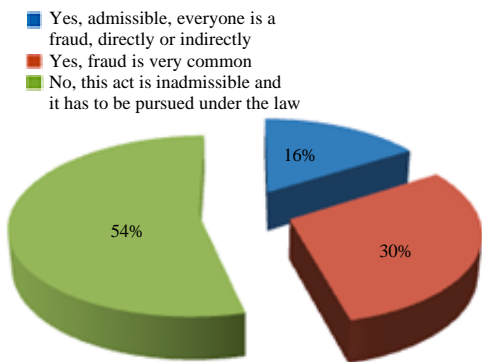


Fig. 4: Results of the population social research concerning the fraud facts comonness

inadmissible and it has to be pursued under the law which shows the high level of the population legal culture and legality of their actions in the field of insurance. However, almost every 6th respondent considers that the fact of fraud takes place in insurance activity and all indirectly or directly are swindlers and try to profit on insurance payments during insured events (Fig. 4).

SUMMARY

By results of the conducted research it is possible to draw a conclusion that in general in the city of Stavropol there is a problem of insurance fraud in the field of property insurance, however, it is not global as most of the respondents consider that the fraud fact in general is inadmissible in insurance branch and has to be pursued under the law. However, the problem takes place and though it concerns only a smaller share of the insurance relations participants, it demands solving.

CONCLUSION

For minimization of the insurance fraud facts, in our opinion, creation and use of integrated approach in the solution of this problem is necessary. Among priority actions we consider necessary:

- Toughening of standards of the Russian legislation, criminal code in the field of insurance fraud
- Creation of conditions of interest in insurance companies and ordinary citizens cooperation witnessing insurance fraud with law enforcement agencies, bodies of insurance supervision
- Carrying out regular monitoring among insurance companies concerning emergence of the fraud facts with participation of their company and carrying out various actions for further suppression of insurance fraud
- Increase of insurance literacy and legal culture of the population in order to avoid insurance fraud “on ignorance” since ignorance of the law does not exempt from liability
- Holding master classes among workers and the staff of insurance companies on identification and detection of swindlers and also facts of insurance fraud
- Creation of special commission or work groups on analysis of insurance payments at emergence of insured events which demand the detailed analysis and are potentially dangerous

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