

The VFM view on the
influence of the
'Credit Crunch' on
risk in claims



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Overview

With each passing day there seems to be more gloomy forecasts regarding the state of the UK economy and the effect caused by the 'credit crunch' on its residents. With rising unemployment and debt, many people will struggle to maintain current living standards. It is therefore reasonable to assume that an increased number of people will seek ways to supplement their income; some even crossing the line into dishonest and illegal activities. Among their targets will undoubtedly be insurers, primarily through claims on personal lines policies, but, through time, into creditor.

Peter Hurst, CIFAS Chief Executive, warned:

"With Britain now in recession, a significant rise in fraud is inevitable, as people turn to crime to make ends meet.....Organisations must acknowledge this by arming themselves against the onslaught. Those of us who were around during the 1992 recession know that the organisations that fared best were those that switched their resources from front-end application processing into fraud and collections teams. The same will be true today. Now is the time for businesses to expand the teams working on fraud prevention and detection to deliver real value against falling bottom line profits. After all, fraudsters are not using the current downturn in the economy as a reason for scaling back their activities".

General Observation - Mid February 2009

The visible effect of the 'Credit Crunch' on volumes of fraudulent claims is, at the moment, somewhat limited. There are however some indications worthy of note:

- Motor fire and theft claims frequency is increasing.
- Creditor claims have increased by 120% through rising unemployment (Association of British Insurers).
- Household claims volumes have, as yet, seen little change, but surely it is only a matter of time.
- Benefit application numbers have risen exponentially.

What should insurers look out for?

There is little doubt that the current recession, which is predicted to continue well into 2010, will have a significant impact on the volume of fraudulent claims being made. Below are outlined some of the key areas within which there is a high probability of increased risk:

- **Speculative fraud** - opportunistic and that driven by desperation.
- **Organised fraud** - at present mostly appearing in motor (usually staged accidents), is likely to move into household claims, e.g. multiple claims - perhaps still made from one address, but with the fraudster using a variety of names and through multiple insurers.
- **Motor theft** - due to falling motor vehicle resale value and payments becoming more difficult as a result of unemployment. Obviously the risk is higher in cases where the outstanding finance is greater than the motor vehicle value.
- **Household claims** - including incidents of theft, burglary and accidental loss, in or away from the home. It is important to realise a significant proportion of household claims relate to accidental damage, accidental loss and theft, perils which are, in any case, inherently high risk in nature, because within the vast majority lies an opportunity to either exaggerate the loss, or to create a fictitious account in order to obtain payment on a claim which never actually happened, or, if it did, did not happen in the way described.
- **Travel** - Less money in the economy will mean that not so many of us will be able to afford a holiday, but despite the fact they may not have the money, many will still go away. Experience tells us that this will result in an increase in fraudulent travel claims as unscrupulous claimants try to recover the cost of their holiday. And, in the shorter term, insurers will be faced with cancellation claims which have been 'tailored' to fit the policy.
- **Underwriting fraud** - through the non disclosure, or misrepresentation of information, in order to obtain lower premiums, cover to which the applicant is not entitled, or cover for a pre-insured event.
- **Creditor** – possibly the most vulnerable of all claim types during a recession, where claimants with some kind of Payment Protection Insurance may be tempted to describe their circumstance to fit the cover they actually enjoy or to prolong cover which has expired through changing circumstances.

It must be assumed that the identification of risk will increase as money gets tighter, household budgets come under strain and customers become more inclined to pursue both genuine and fraudulent claims. It is a problem that will be compounded as the less honest spread the word that making a fraudulent claim is relatively easy and meets little resistance. It is vital that insurers prepare to manage the risk identified.

Although these issues are concerning, it is still believed that the problem will remain manageable if insurers deploy appropriate resources, in the right places and with the right tools. Or, if thought more expedient, utilise the services of a robust supplier experienced in these areas. VFM has the financial strength and high service delivery standards, systems and processes to ensure, first and foremost, genuine claimants will not be penalised at a time when every penny counts.

What defences are insurers able to deploy?

There are a number of well tested solutions available to the concerned insurer, and now, more than ever, these tools should be applied on those cases considered to present the highest risk. Nevertheless, it is prudent to continue to balance the cost of their deployment against the potential they represent for achieving an overall return on investment and, of course, always ensuring any suppliers involved are able to provide a continuing service. The following are worthy of consideration:

- Making use of industry-wide databases (CUE, MIAFTR , IFIG, CIFAS, etc).
- Strengthening internal fraud teams and processes. (Front line staff are key to identifying potentially spurious claims and VFM remains available to ensure that they receive the appropriate fraud awareness training when required).

At a recent survey conducted at the Post Magazine Motor Claims Event 83% of those asked said they did not believe that their processes were sufficient to capture fraudulent claims at FNOL.

- Ensuring lines of communication between all elements that form an insurer's defence against fraud attack are open and used effectively and in a timely fashion. Though it may appear obvious, only when all those involved in the claims cycle work closely and in harmony, can suspect claims be identified early and the best results achieved at minimum cost and the least inconvenience to the genuine customer.

- By making the best use of intelligence, primarily gained from analysing claims data, to review and adapt existing risk criteria.
(NB; It is wise to include underwriting in any feedback loop which incorporates MI data from claims).
- Regularly and routinely monitoring claims volume to identify increasing frequency around perils likely to be affected by the economic situation, specifically:
 - Motor
 - fire
 - theft
 - Household
 - accidental damage
 - escape of water (for both buildings and contents)
 - theft, accidental loss (in and away from the home)
 - freezer contents
 - loss of money claims
 - Creditor
 - where constant but empathic reviewing of the claimant's circumstances reveals anomaly or contradictions.
With creditor claims it is perhaps more cost effective to concentrate on moderating the length of the claim than the original entitlement.
 - all claims where the claims handler has identified deceptive behaviour on the part of the claimant.

How VFM can help to achieve reductions in claims leakage?

Detecting fraudulent activity is a core skill of this organisation. The Company is ready for any increase in new claims notifications. Further growth was already anticipated for 2008 / 2009 and there are already appropriate levels of staff both in numbers and experience to deal with increased claims volumes. Even if referrals of high risk claims to VFM were to increase significantly:

- VFM will always provide a return on investment for every claim referred.
- VFM's systems and process will remain fully FSA compliant especially in relation to Treating Customers Fairly
- &
- Referring claims to VFM could also represent a real cost benefit when compared to employing additional staff.

It is important to recognise that a high percentage of corrupt claims will be made by inexperienced fraudsters. It is therefore highly likely that such people will exhibit increased levels of deceptive behaviours when making a claim; behaviours obvious to a trained claims handler. In order to anticipate the predicted increase in high risk claims VFM recommends that fraud awareness training is delivered to customer facing teams to ensure they understand:

- The types of claims which should be referred
- &
- How to identify deceptive behaviour

VFM remain vigilant and will continue to review their processes and systems in order to ensure that emerging trends are detected as early as possible. Notwithstanding, the early indications of developing trends may not be contained within the claims referred to VFM but within those considered suitable for settlement.

VFM consultants have experience in tailoring referral criteria to maximise savings and minimise risk; and are more than willing to conduct a 'health-check' on an insurer's operations - from both a risk and customer service perspective.

VFM are financially strong, fit for growth and ready to help.