SOCIETY OF ACTUARIES

**The Future of Preferred Underwriting**

**August 25-27, 2013**

**Westin O'Hare Hotel**

**Fraud Detection Topic**

Doug Neill
Jena Kennedy
John Detwiler

## Fraud Detection Panel

❖ **Doug Neill, FLMI, ALHC**
  **President**
  **Risk Review Services, Inc.**
  **EVP, Blue Owl Life Insurance LLC**

❖ **Jena L. Kennedy, FLMI, ALHC, ACS, CLU**
  **Director of Strategy, Life Insurance Vertical**
  **LexisNexis Risk Solutions**

❖ **John W Detwiler**
  **Director Marketing and Account Management**
  **MIB, Inc.**

○ **Panel Moderator, Tom McCarthy, SVP, Swiss Re**

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"Combating Life Insurance Fraud"
Blue Owl Life Insurance, LLC


SOA Introduction to  Fraud Detection
August 26, 2013

Doug Neill FLMI ALHC, President

Risk Review Services, Inc.

EVP, Blue Owl Life Insurance LLC

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# Types of Life Insurance Fraud

- Legacy
- Viatical
- Lottery
- STOLI
- Criminal/Money Laundering
- Rebating, Annualization & Other Commission Scams

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# The "Perfect" Crime

- Life insurance is about as close to being a perfect crime as one can get
  - If the perpetrator is caught within the first two years, the company returns all of the premium paid.
  - If they are not caught within the first two years, the company pays out enormous sums to the named beneficiary, who receives the funds tax free.
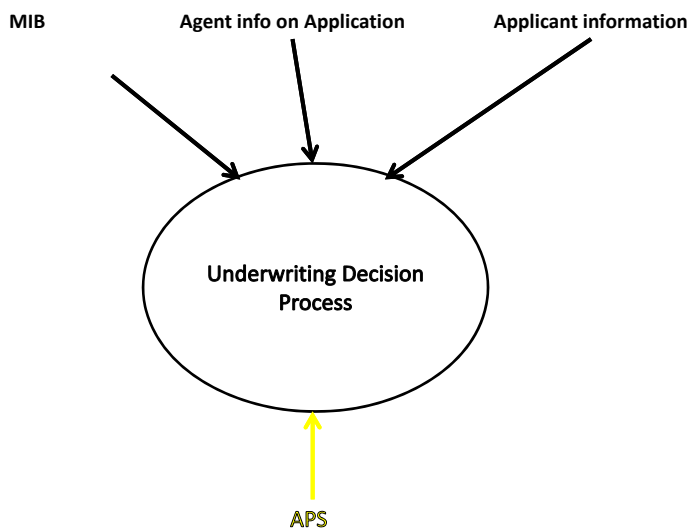
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# Tools: RRS Proprietary Databases

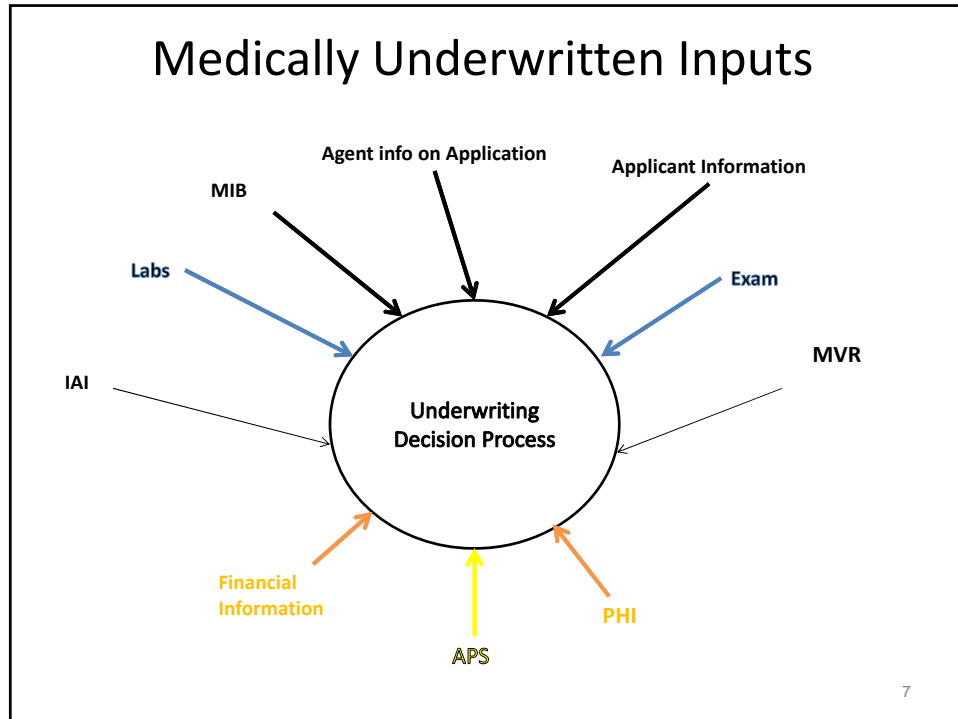Among our tools/resources are databases, such as

- Agents who are associated with fraudulent life insurance policies.
- Addresses, personal identifiers, etc., of individuals known to RRS to be associated with life insurance policies.
- Aliases used by criminals of insurance fraud.
- Paramedics who are known to falsify insurance examinations.

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# Non-Medically Underwritten Inputs

**MIB**          **Agent info on Application**          **Applicant information**

**Underwriting Decision Process**

**APS**

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## Medically Underwritten Inputs



Agent info on Application
Applicant Information
MIB
Labs
Exam
IAI
MVR
Underwriting
Decision Process
Financial
Information
PHI
APS

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# Paramed Environment

- Shift of paramedic allegiance from insurance company to the agent.
- The number of falsified exams is increasing.
- Among paramedic misconduct are: using imposters, substituting healthy blood, urine and EKG's, "making up" physicals, not reporting discrepancies to companies.
- Some paramedics operate under different aliases, moving from company to company.
- Paramedical companies are not being held accountable for examiners actions.

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Medically Underwritten Inputs



Proposed Medically Underwritten Inputs
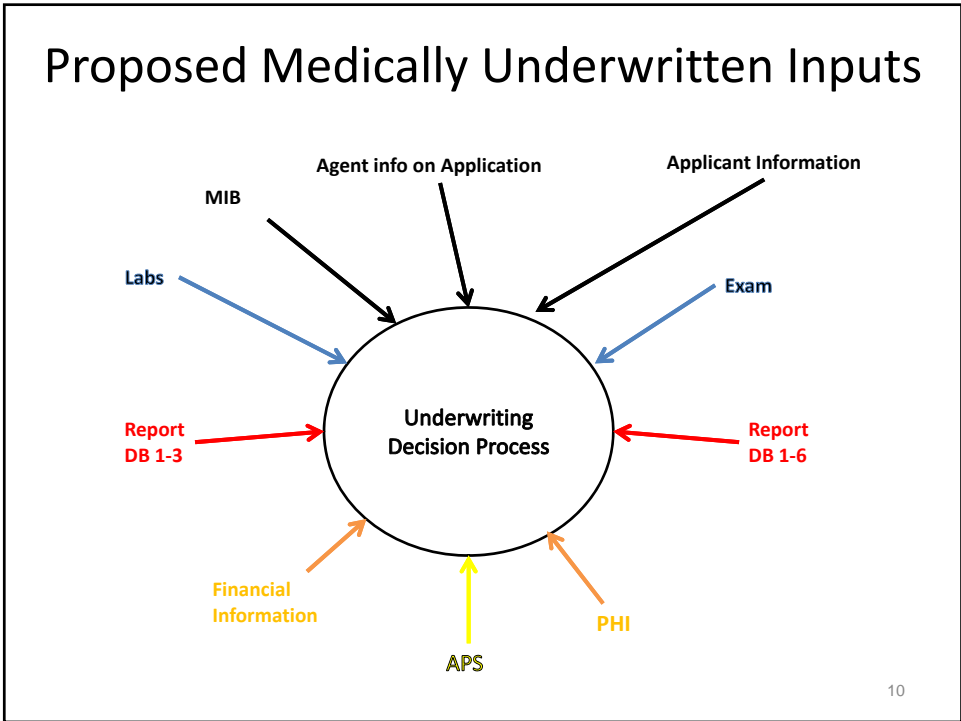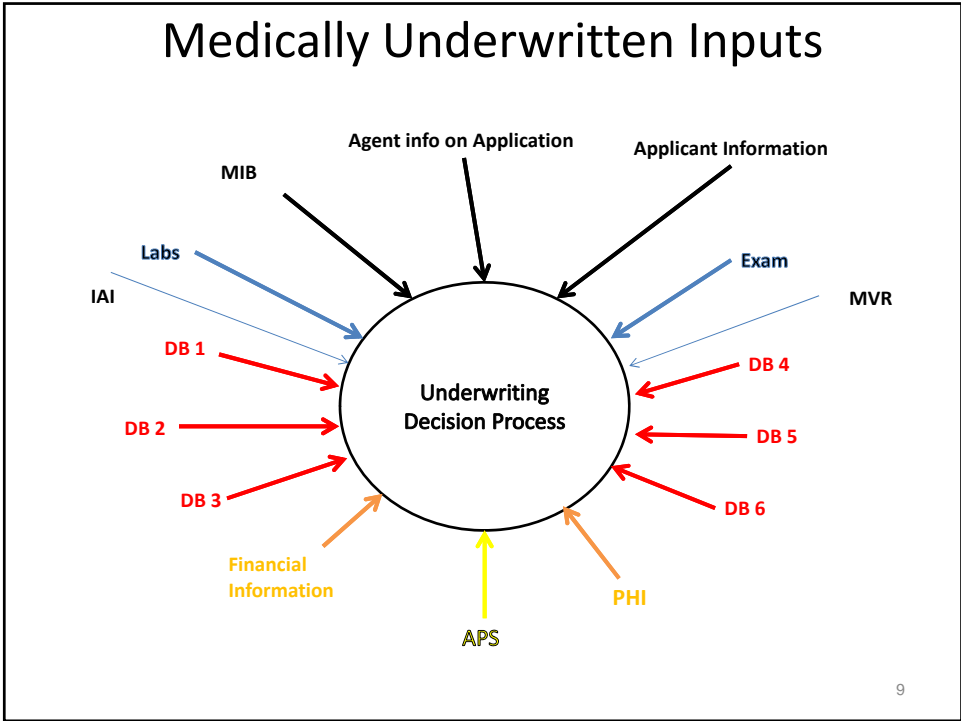
# Conclusion

- Insurers need to develop their ability to utilize unbiased, third party data to validate or correct other data inputs.

- Reports should be simple to interpret, and in the small percentage where a discrepancy exist, give them guidance as to what anomaly exist and further measures needed to correct the information.

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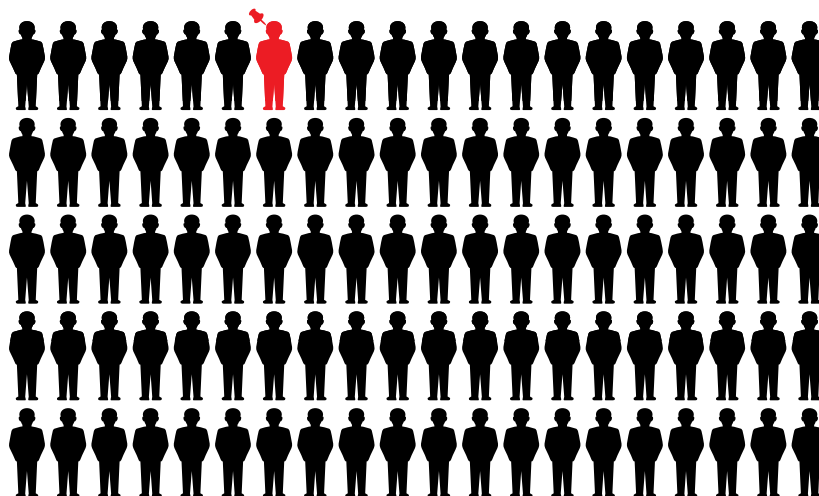**Do You Know Who I Am?**
Fraud Detection and Prevention in Life Insurance
Presenter: Jena L. Kennedy, FLMI, ALHC, ACS, CLU
SOA The Future of Preferred Underwriting Seminar

**LexisNexis**

**Risk Solutions**
Insurance

## What's so scary about fraud, anyway?

$80B>$12B

## How's That Working for You?

### Historical approach
- Most fraud caught at time of claim
- Reactive approach
- Relies heavily on manual processes, experienced claim reps
- Automated exception processing—only catches outliers and obvious
- Expensive: to catch and not to catch

88% currently employing anti-fraud technology

**BUT**

**Less than half are using technology for non-claims functions**

Source: "The State of Insurance Fraud Technology"
Sept 2012, CAIF and SAS

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### Today's Fraud Landscape in the Life Insurance Industry

- It's increasing
- It's more organized—becoming like small businesses
- Can often be more complex
- Fraudsters use technology, too



Two areas of focus:
- Identity Fraud
- Collusion

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### A Unique Vantage Point



- LexisNexis has built one of the largest, most comprehensive identity repositories in the country—it powers our identity fraud solutions.

- The LexisNexis identity repository has over 290 million active identities on file, with about 7 million identities being added each year.

- With more than 34 billion records from more than 10,000 sources and growing daily by millions of records –it is used by insurers, government and financial institutions.

## How solid is the consumer's data footprint?

# LexID<sup>SM</sup>

**The fastest linking technology platform available with results that help you make intelligent information connections.**

LexID<sup>SM</sup> is the ingredient behind our products that turns disparate information into meaningful insights. This technology enables customers using our products to identify, link and organize information quickly with a high degree of accuracy.

**Get a more complete picture**

Make intelligent information connections beyond the obvious by drawing insights from both traditional and new sources of data.

**Better results, faster**

Use the fastest technology for processing large amounts of data to help you solve cases more quickly and confidently.

**Protect private information**

Keep customer SSNs and FEINs secure and enjoy peace of mind knowing you are taking steps to observe the highest levels of privacy and compliance.

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## Before We Dive In: A quick footnote about using data

Anytime you are using data, you should understand
- The source of the data
- How that data is regulated
  - FCRA, GLB, DPPA, HIPAA
- The coverage
- How often the data is updated

Always consult with your legal counsel.

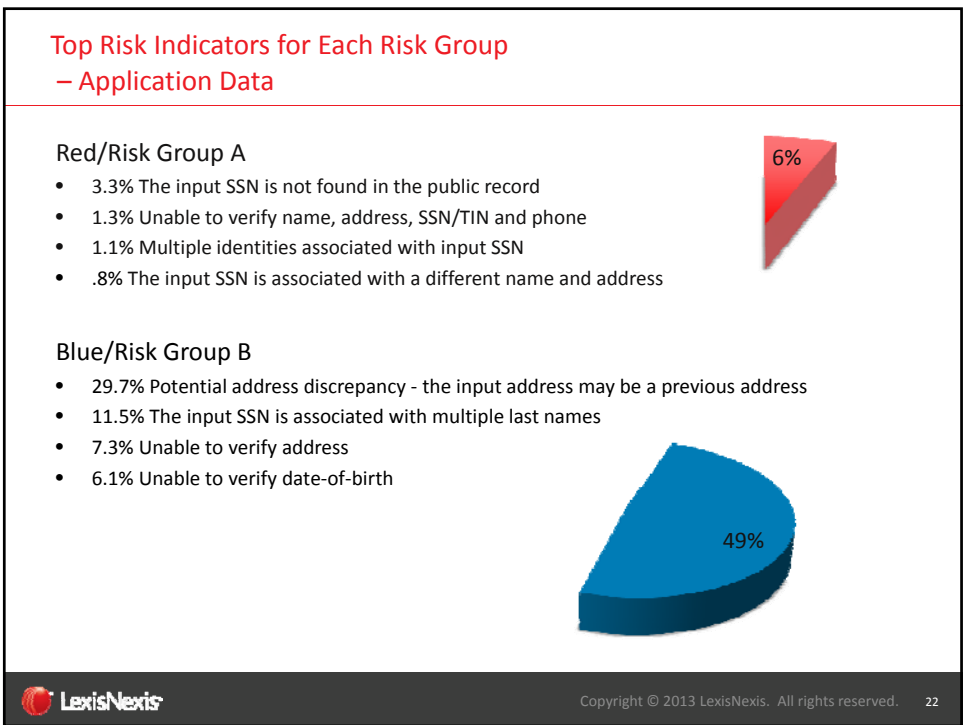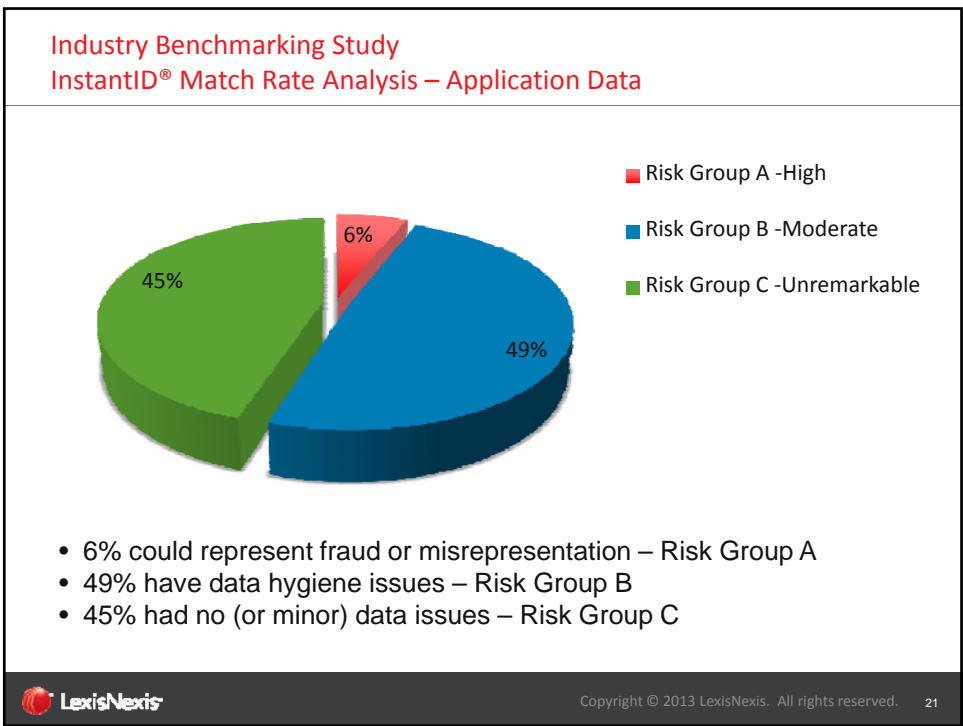## Five Questions for Mitigating Fraud Risk Through Identity Management

- RESOLVE: "Who are you?"
- VERIFY: "Do you exist?"
- AUTHENTICATE: "Are you who you say you are?"
- EVALUATE: "Can I do business with you?"
- ALERT: "Are you exhibiting high-risk behavior?"

## RESOLVE and VERIFY: Identity Verification

- Is the identity being presented valid?
  (i.e., it has not been made up or assumed from a deceased individual).

- Do all the identity components fit together?

**Industry Benchmarking Study**
**InstantID® Match Rate Analysis – Application Data**

- Risk Group A -High
- Risk Group B -Moderate
- Risk Group C -Unremarkable

6%
45%
49%

- 6% could represent fraud or misrepresentation – Risk Group A
- 49% have data hygiene issues – Risk Group B
- 45% had no (or minor) data issues – Risk Group C

**Top Risk Indicators for Each Risk Group**
**– Application Data**

Red/Risk Group A

- 3.3% The input SSN is not found in the public record
- 1.3% Unable to verify name, address, SSN/TIN and phone
- 1.1% Multiple identities associated with input SSN
- .8% The input SSN is associated with a different name and address

6%

Blue/Risk Group B

- 29.7% Potential address discrepancy - the input address may be a previous address
- 11.5% The input SSN is associated with multiple last names
- 7.3% Unable to verify address
- 6.1% Unable to verify date-of-birth

49%

## AUTHENTICATE: Instant Authenticate®

**Identity Authentication** confirms the identity of the consumer at the other end of a faceless transaction.

This solution generates a quiz from non-wallet public records and other proprietary data.

Used in internet transactions, tele-underwriting interviews, and policy owner service.

**Case study:** One insurer is using both identity verification and a KBA quiz as part of an online application for a simplified issue product sold online in a direct-to-consumer single-session purchase channel.

### Sample Quiz

**Subject: JOHN SMITH**

In which of the following cities have you NEVER lived or used in your address?
- Supplyville
- Rochester
- Hyatt
- Tucker
- All of the above

In what state was your Social Security Number issued?
- NY
- ME
- CT
- NE
- None of the above

Which of the following streets have you PREVIOUSLY OR CURRENTLY used as your address?
- Ford
- Gambell
- 144th
- 17th
- None of the above

Which of the following is/was your phone number?
- 655-5806
- 454-5732
- 828-7767
- 972-0098
- None of the above

Cancel    End    Submit

## Multifactor Authentication

- A higher level of security for sensitive and/or high value transactions

- Users assert their identities based on something they have (e.g. cell phone), something they know (e.g., password) and/or something they are (e.g., a voice print and a location).

- Can't necessarily use the same solutions externally as you use internally

- Can apply various appropriate degrees of security to different types of transactions.

EVALUATE: Underwriting Requirements as Fraud Prevention Tools

- Many different underwriting requirements are now available as structured data
- More and more requirements available in real time (for example MVRs, EIR)
- New data sources enable cost savings and provide competitive advantages for those insurers who leverage those sources.
- Predictive Models further leverage the data to provide insight into patterns that exist within data and can be predictive of future activity (e.g. fraud)

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ALERT: What's ahead--learning from adjacent markets

- Fraud models and scoring of new applications
  *White Paper: "A Unique Perspective into the World of Identity Fraud"*
  - Credit card applications where the SSN was reported to belong to someone other than the applicant had a 24% fraud rate.
  - If the SSN was reported deceased or was issued prior to the applicant's date-of-birth, the fraud rate was over 21%.

- Relationship Analytics
  *White Paper: "Prevent Organized Fraud: Proactively Detecting Collusion"*
  - Monitoring and alert system for collusive activity

## Address Clustering

**Debt Relief Agency**

████████████████████████, AZ 85282

- 11,456 LexIDs found at this location

**Homeless Shelter**

███████████████████ ▆A 92101

- 3,653 LexIDs found at this location

**Hotel/Motel**

████████████████, MEMPHIS, TN 38116

- 2,199  LexIDs found at this location

**Remailer**

███████████████, TX 77043

- 1,049 LexIDs found at this location

## Detecting Collusion: Relationship Analytics



Key
Target  Child  Deceased
Spouse  Associate
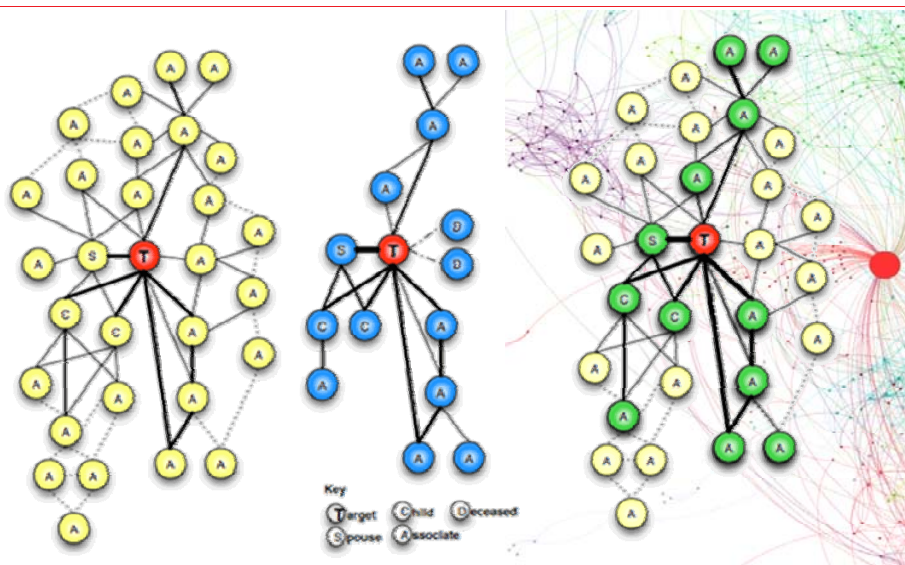
Next generation . . . IRM as a business enabler

Moving from . . .

"Who are you?"

to

"Given what we are trying to accomplish through this particular transaction, what do we need to know about this individual?"

Moving from . . .

Obligation

KYC: reduce risk/restrict access

to

Opportunity

Improve customer satisfaction by increasing access and ease of doing business.

Don't ask for information you don't need—reduce "friction"

In summary . . .

- Prevalence of fraud has dramatically increased.
- Fraud comes in many shapes and sizes—and fraudsters are constantly innovating.
- Fraud risks can involve identity risk as well as collusion—with a variety of schemes.
- Look at the entire workflow as you identify opportunities for fraud mitigation or prevention—is your approach too focused on backend/reactive?
- Catching fraud/misrepresentation early in the process can save you money and help prevent fraud before it gets in your book of business
- Growth in data and advances in technology combine for powerful tools to combat fraud . . .  and LexisNexis is ready to help you successfully detect, prevent, and mitigate fraud.

Thank you for your attention!

Jena L. Kennedy, FLMI, ALHC, ACS, CLU
Director of Strategy, Life Insurance Vertical
LexisNexis
678.695.3382
jena.kennedy@lexisnexis.com

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*MIB Underwriting Services*

When you can see risks clearly,
you can issue with confidence.

**John W Detwiler**
Director Marketing and Account Management
jdetwiler@mib.com

**APPLICANT 100865:**
44-year old male
5'11", 180 lbs
No significant health issues
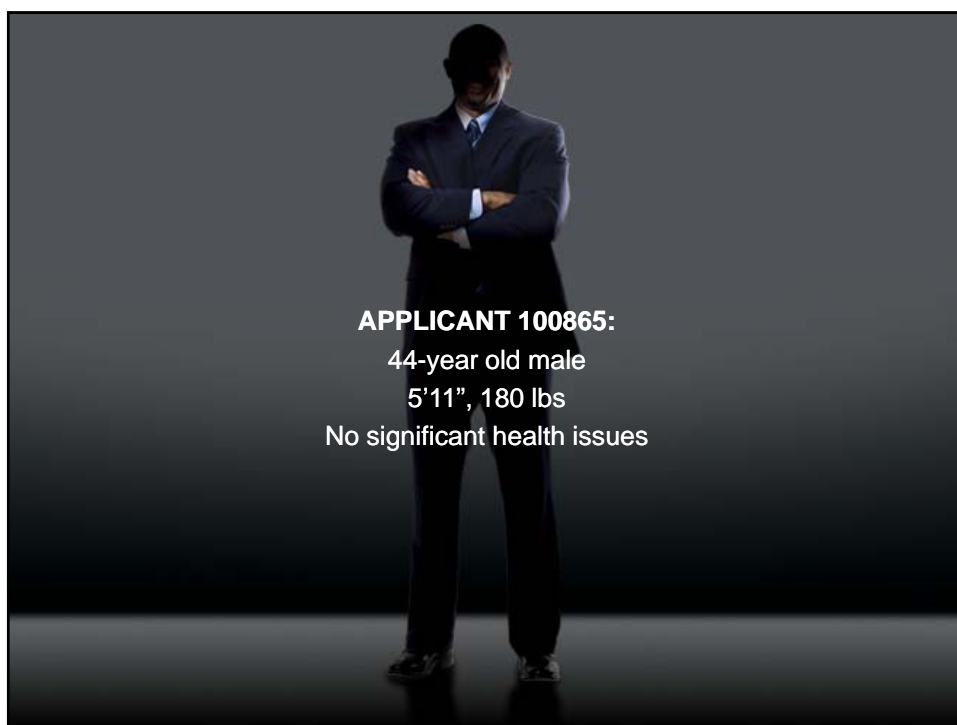
MIB CHECK REVEALS:



**MIB CHECK REVEALS:**
Applicant is actually 5'6", 248 lbs
Suffers from atrial fibrillation,
hypertension and
elevated glucose levels.
None of this information
was disclosed on the app.

## MIB and Preferred Underwriting

- MIB is:
  - An insurance industry cooperative trade association
  - Members are 450 insurance companies in North America
  - Insurance companies search and report information applicants
  - Regulated under FCRA as a "Nationwide Specialty Consumer Reporting Agency"
  - In a very high percentage of "medically underwritten" life insurance, MIB is one of the first requirements sought
  - To take from the bank (search MIB), you must put in the bank (report to MIB)
  - A trusted data partner with the insurance industry
    - Actuarial and Statistical Practice

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## MIB's Impairment Database

- MIB Checking Service
  - In 2012, approximately 14 million MIB Searches were done. Of those:
  - Over 3.5 million new reports added to the Checking Service database
  - Today we have over 44 million coded reports in the database on over 24 million individuals
- Insurance Activity Index (IAI)
  - A look at the prior 2 years of MIB Search Activity (application activity)
  - High application activity can be an indicator of fraud
- Follow-up Service (Plan F)
  - Any new reports that come into the database on your applicant are automatically sent
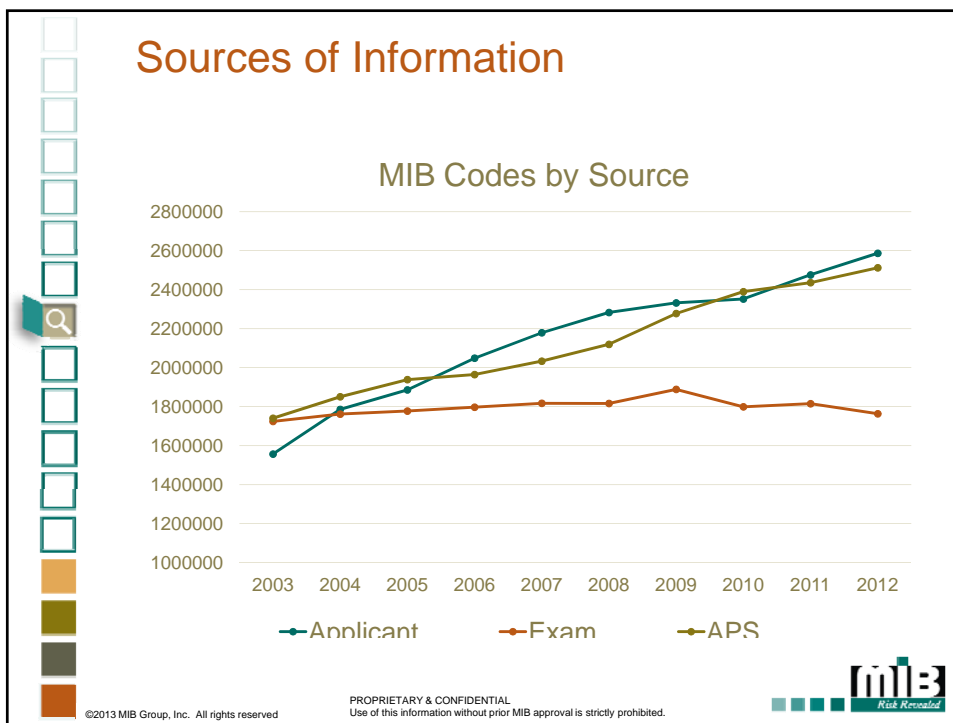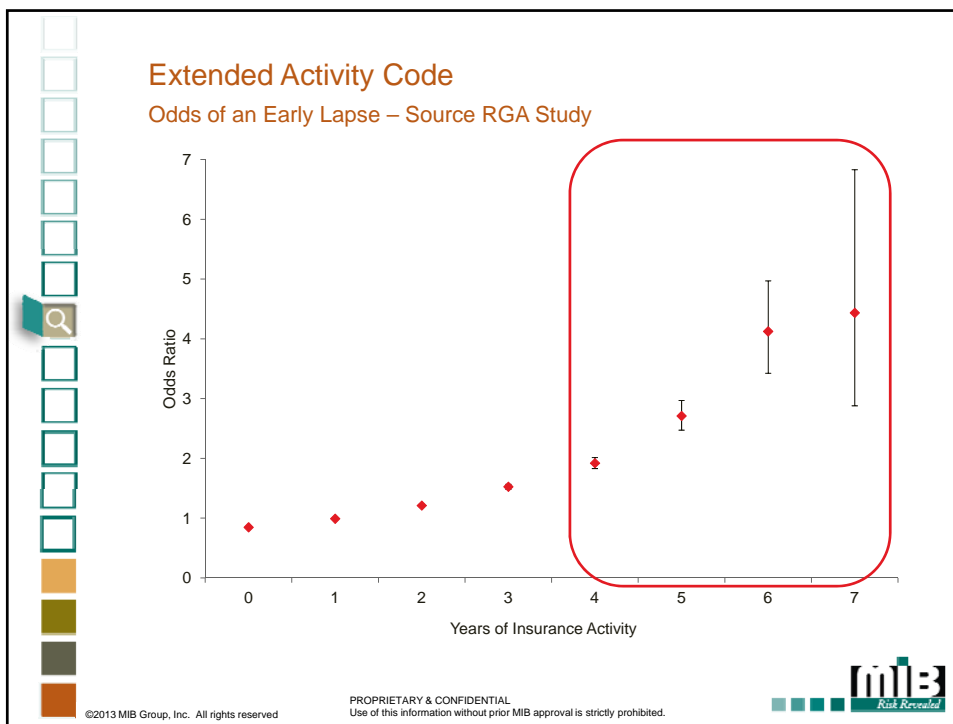  - Meant to mirror Contestable Clauses

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## Changing Demographics
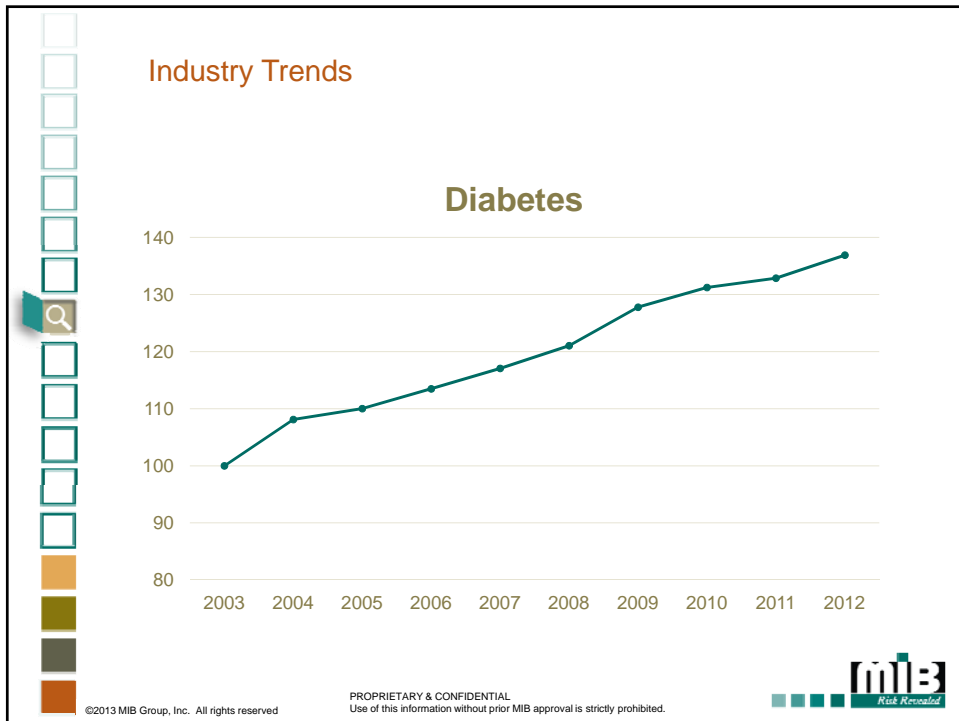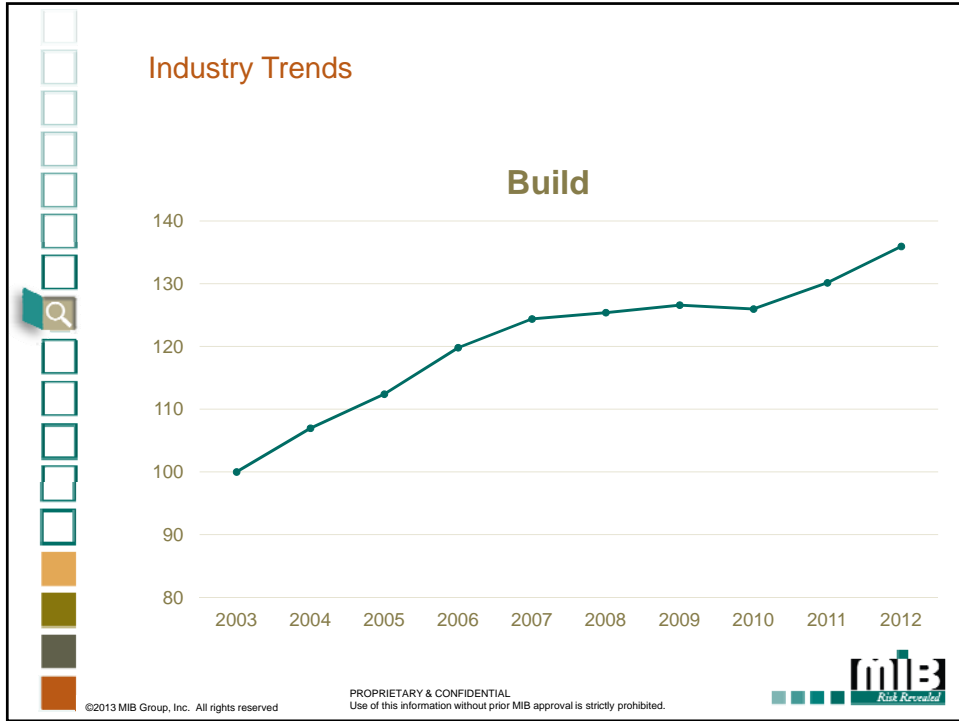
Aging Applicants

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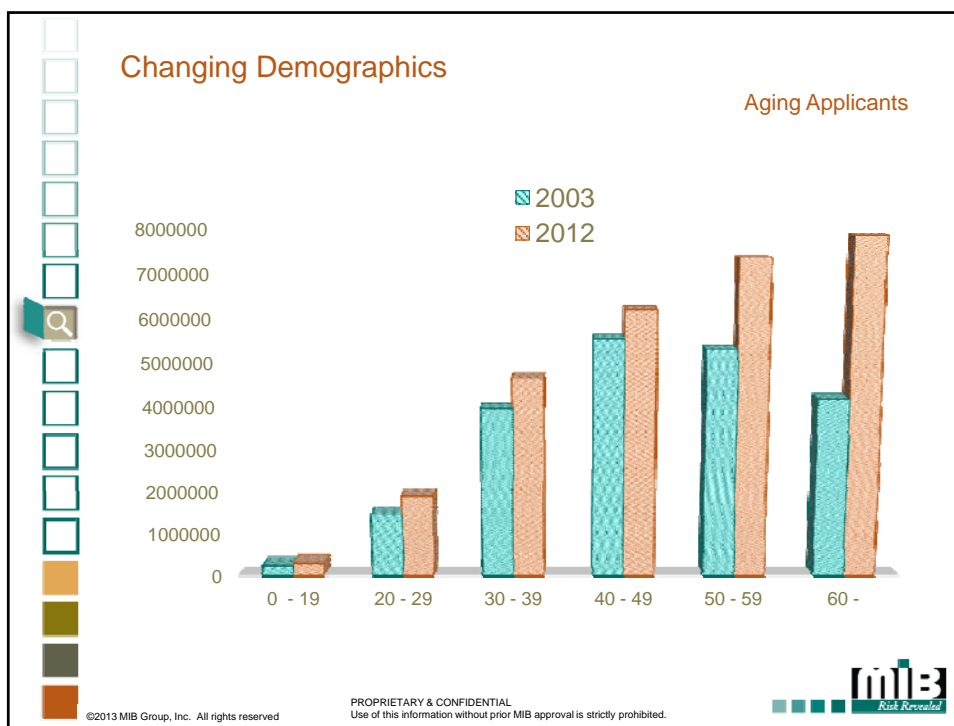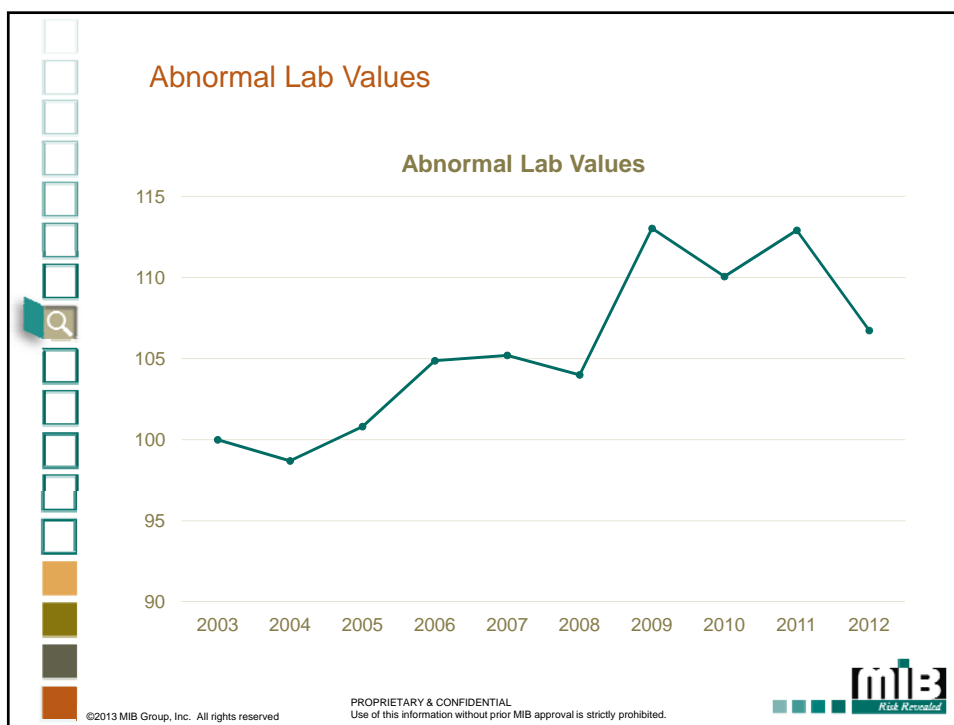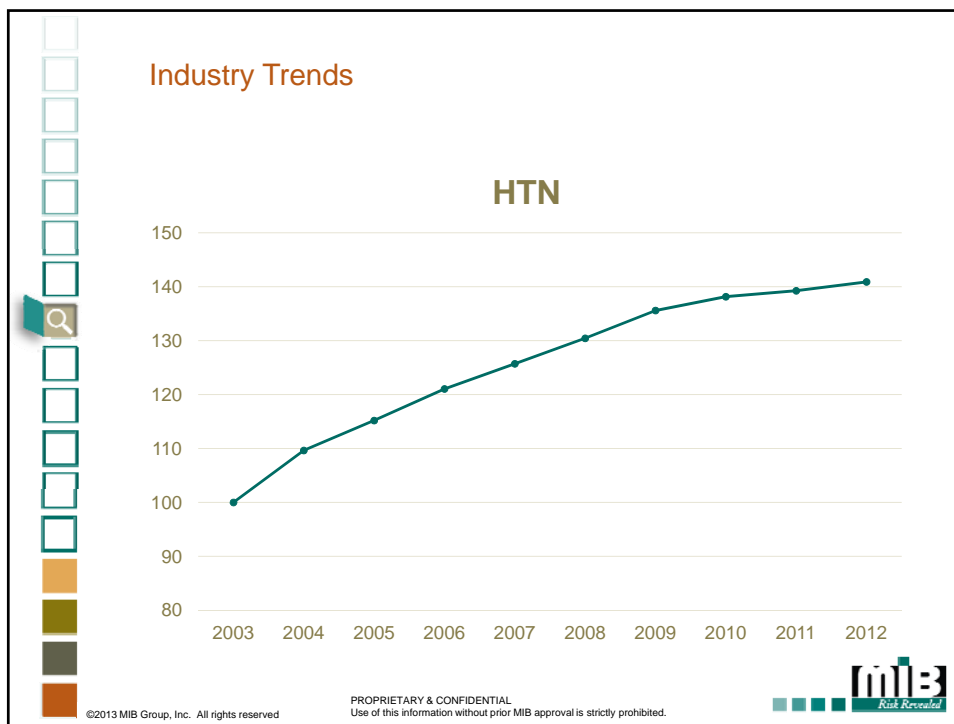
## New Extended Activity Code

- **New Extended Activity Code looks at IAI activity for the last 7 years**
  - Code is created if life insurance applied for in at least 4 or more of the last 7 years.
  - Alert to potential fraud (churning)
  - Misrep on coverage applied for/in-force
  - Get Request for Details to see 7 year IAI history

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## Extended Activity Code
Odds of an Early Lapse – Source RGA Study

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## Sources of Information

### MIB Codes by Source

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Industry Trends

**Build**



Industry Trends

**Diabetes**

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Industry Trends

**HTN**



Abnormal Lab Values

**Abnormal Lab Values**

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## Other Fraud Detection Services

- Killer Grannies or
  Black Widow case

***Another example:***
Helen Golay &
Olga Rutterschmidt

2 women bought 23 life policies on 2 homeless men.
Both men were killed in hit and run accidents.
Women received at least $2.2 million in claim payments.
18 IAI's and 9 coded reports were submitted to MIB on 1 victim.
Those that had IAI were aware of excessive application activity
in this 9 month period.
2 over-insurance codes were also reported. Those companies
that had Plan-F were alerted.
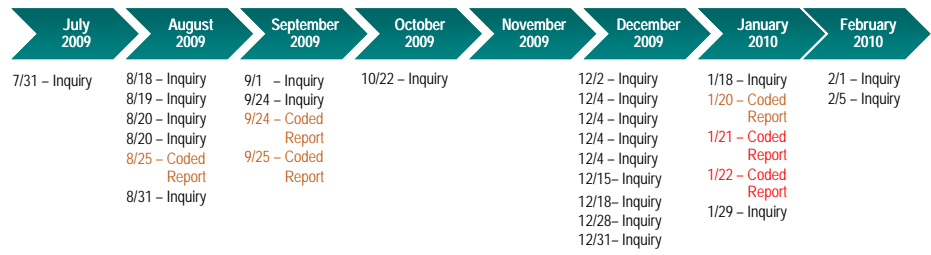Both were sentenced to life in prison in July 2008.

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# Anatomy of a Fraud

| July 2009 | August 2009 | September 2009 | October 2009 | November 2009 | December 2009 | January 2010 | February 2010 |
|---|---|---|---|---|---|---|---|
| 7/31 – Inquiry | 8/18 – Inquiry | 9/1 – Inquiry | 10/22 – Inquiry | | 12/2 – Inquiry | 1/18 – Inquiry | 2/1 – Inquiry |
| | 8/19 – Inquiry | 9/24 – Inquiry | | | 12/4 – Inquiry | 1/20 – Coded Report | 2/5 – Inquiry |
| | 8/20 – Inquiry | 9/24 – Coded Report | | | 12/4 – Inquiry | 1/21 – Coded Report | |
| | 8/20 – Inquiry | 9/25 – Coded Report | | | 12/4 – Inquiry | 1/22 – Coded Report | |
| | 8/25 – Coded Report | | | | 12/4 – Inquiry | 1/29 – Inquiry | |
| | 8/31 – Inquiry | | | | 12/15 – Inquiry | | |
| | | | | | 12/18 – Inquiry | | |
| | | | | | 12/28 – Inquiry | | |
| | | | | | 12/31 – Inquiry | | |

## Insurance Fraud and Forgery

- ***The $127 Million Man***
  - 44 life insurance policies were sold on one man.
  - Totaled over $127 million dollars.
  - Misrepresented coverage in-force.
  - Stated that policies would be replaced.
  - Sold policies to investors.
  - 20 IAI's listed on MIB record and 1 over-insurance code reported.

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**OVER A BILLION DOLLARS.**
That's how much MIB is estimated to save the insurance industry *each year* by revealing risks only its members can see clearly.

Proven results like these are what makes MIB the industry's most trusted, cost-effective resource in the fight against anti-selection.

THANK YOU!!!

John Detwiler
jdetwiler@mib.com
781-751-6545

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The Future of **PREFERRED UNDERWRITING SEMINAR**

Aug. 26-27, 2013
Rosemont, IL (just outside Chicago)

# Fraud Detection Panel

❖ **Doug Neill**
❖ **Jena L. Kennedy**
❖ **John W Detwiler**

## Questions?