

Subject: Non-disclosure in the life industry; Organised motor insurance fraud

Note of key matters:

Attendees:

| Presenters | APPG | Others |
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| <p>1. Non-disclosure in the life industry – presented by Computer Sciences Corporation: Andrew Corbett; David Lister; Peter Le Beau</p> <p>2. Organised motor insurance fraud – presented by the Insurance Fraud Bureau: Richard Davies (Fraud Risk Manager, AXA UK); Chris Hill (Head of Fraud, Norwich Union)</p> | <p>John Greenway Baroness Turner Lord Davies Richard Bacon</p> | <p>David Worsfold David Morey (PwC)</p> |

1. Computer Sciences Corporation (CSC)

Background – CSC, an information technology company listed on the New York Stock Exchange, is working with an American company called the Medical Information Bureau (MIB) to identify how the UK protection insurance market could benefit from adopting a fraud protection service similar to that provided in North America by the MIB.

Key points were:

- Statistics (from Swiss Re's "The Insurance Report: Protection at any Price?" November 2005): 1 in 10 applicants over 40 non discloses; 5% of self declared non smokers tested positively for cotinine; 6% of applicants would commit non-disclosure to get cheaper cover; 30% of new applicants contain some form of non-disclosure/material misrepresentation; over 50% of insurers carry out no routine non-disclosure review
- Views (from Scottish Re ICM Survey 2006): in response to the question ‘...do you think that Insurance Companies should be allowed to reject a life insurance claim if important facts were not provided by the customer when the policy was taken out – despite clear questions being asked on the application form?’ worryingly, 30% of respondents thought that insurers should always pay life insurance claims in full; 16% thought insurers should always pay at least a part of any life insurance claim
- The implications of non-disclosure include:
 - honest customers have to subsidise dishonest customers through higher premiums
 - increased costs may preclude certain customers from purchasing the right amount of coverage
 - increased frustration with the ever more complicated ‘application form’ part of the sales process
 - insurance and reinsurance business models threatened and prices increased
- ‘The impact of fraudulent non-disclosure puts the workflow of the life insurance transaction at risk by creating a chain of economic damage which ultimately fosters a

serious threat to society by not providing society with the right type and right amount of coverage'; fraudulent non-disclosure needs to be recognised as 'socially undesirable'

- The North American and UK life insurance markets are very similar. In North America, the problem of non-disclosure is mitigated through the services of the MIB which originated in 1890 when 15 Medical Directors, concerned with the undisclosed risk posed by fraudulent applicants, began to co-operate to ensure the fair and equitable pricing of policies. Today, MIB provides nearly 500 US and Canadian insurance companies with access to information of underwriting significance. Its services protect insurers, policyholders and applicants from attempts to conceal or omit information material to the sound and equitable underwriting of life, health, disability income and long term care insurance. CSC has teamed up with the MIB in order to propose a similar solution in the UK
- CSC believes that a similar model operative in the UK would be successful in reducing the extent of fraudulent non-disclosure; to be effective the model relies on participation by trade and consumer bodies as well as regulators
- CSC is seeking endorsement of a fraud-prevention initiative and its aims include:
 - increased awareness of the problem of non-disclosure among the media and public
 - wider recognition of the impact of the problem by consumers and the life industry
 - a viable technology solution to eradicate the problem.

A copy of CSC's letter to members, forming part of their presentation, is attached for reference.

2. Insurance Fraud Bureau (IFB)

Key points were:

- The insurance industry is concerned about the increasing extent of staged and induced accidents and the consequential fraudulent claims on insurers
- Staged and induced accidents are carried out randomly, are extremely dangerous and increasingly prolific. Accidents take place at high and low speed. Whilst all drivers may be identified as a target, there is anecdotal evidence that the more vulnerable, such as mothers on school runs, are being targeted, as they are more likely to admit liability
- They are carried out to violate innocent victims, allowing insurance claims to be made for false injury and loss of earnings
- The extent of the problem is increasing rapidly – the number of cases detected (by only two insurers) in 1999 was 3,278; the total number of cases detected to date is 22,605
- This has become a profitable scam; the 'methodology' behind successful claims is now being openly sold between different gangs (with 30 to 50 people in each gang) – this includes the 'know how, training etc. It is believed that gangs are involved in a variety of other serious organised crimes (narcotics etc)
- Fraudulent insurance claims can amount to £30,000 to £40,000 each; gangs may carry out 300 to 400 crashes per year
- To date, police forces have not responded positively to allegations (supported by evidence) of staged and induced accidents – this is largely due to the lack of prioritised resource and funding for tackling fraud; fraud targets have been largely removed from the operation frameworks of local police forces

- Action is required to prevent this matter spiralling out of control – not only are insurers (and hence honest policyholders) victims of this fraud, but (targeted) innocent third party drivers are put at serious risk, as are other (untargeted) third parties
- The insurance industry has recently invested in the Insurance Fraud Bureau which aims to tackle staged and induced accident fraud by:
 - using a new, early warning system (technology) to identify gangs operating in particular areas
 - the use of analysts and case managers to co-ordinate the industry's response
 - the provision of support for policy intervention
- However the IFB believes that without a renewed police response capability, it can only disrupt the gangs' activities. It supports the recommendations made by the Attorney General for a framework for anti-fraud in the UK, including a ring-fencing of the existing police resource dedicated to fraud and a priority system to channel efforts where most harm can be caused
- The IFB is keen to secure guidance and support from the Group to ensure the recommendations of the Attorney General are effected.

3. APPG's view

Organised motor insurance fraud

- The Group is very concerned about, and is supportive of the need to provoke political response to, the growth in staged and induced accidents affecting innocent third parties
- In particular, the Group supports the need for greater police participation in such identifiable cases, which itself requires a greater emphasis on fraud within policing priorities
- It believes the media has an important role to play in raising the general awareness of the prevalence of staged and induced accidents, helping the driving community to take appropriate precaution where possible.
- It is also concerned about the impact of fraud against the insurance industry affecting the price of policies bought by honest customers.

Non-disclosure in the life industry

- The Group is concerned by the results of (the Scottish Re ICM Survey 2006) research suggesting that 30% of the public believe that insurers should pay out in full on life claims where non-disclosure is proven (and another 16% believe that insurers should at least pay out in part)
- The Group also fully supports the industry's initiatives to reduce the extent of fraud (through non-disclosure).

DL Morey

29 November 2006