Shift

SHIFT TECHNOLOGY FRAUD INSIGHTS

COVID-19 SPECIAL EDITION: MAY 2020

www.shift-technology.com

FRAUD INSIGHTS SPECIAL EDITION

The COVID-19 pandemic is already having a profound impact on the global economy. Unfortunately, experience tells us that when both businesses and individuals are faced with economic uncertainty, the rate of insurance fraud increases. In past events, such as "The Great Recession of 2008," the industry faced nearly 10-20% more fraudulent claims during the recession itself and for up to three years following its official end. Based on our initial findings, we can anticipate similar increases (happening in multiple waves) as a result of the global pandemic and its economic effects, with schemes being perpetrated by individuals, businesses, providers and organized fraud rings. We also believe we will see increases across multiple lines of business as those looking to defraud insurers will do so using a variety of scenarios targeting various insurance types.

As we look at the impact of the pandemic, what are we able to not only observe, but also predict, about the effect of COVID-19 on insurance fraud? In this report, we'll analyze individual lines of business for the types of fraud we're already seeing as well as explore new fraud scenarios we anticipate will become more prevalent.

COMMERCIAL PROPERTY

We lead our analysis with the likely impact of fraud on commercial property insurers. We do so because we anticipate commercial property insurance to be the most heavily impacted as a result of the economic fallout related to the COVID-19 pandemic. Our understanding of the fraud trends in this area leads us to believe that suspicious claims in commercial property insurance will more than triple as a result of the economic impact of the outbreak.

It comes as no surprise — and has already been widely reported by the news media — that many small and medium sized businesses are struggling with the effect of either forced closure or reduced operations. This is especially true for bars, restaurants, travel agencies, and other businesses that were not designated as "essential" by authorities.

Despite anticipated government assistance and other recovery programs, many of these businesses will nevertheless find themselves in a precarious financial situation sooner rather than later. And as history has taught us, one of the easiest ways to compensate for lost revenue is insurance fraud. Although arson — the owner simply destroying the business completely — has historically been the fraud of choice when a business is in trouble, it is also a fraud that today can be much more easily investigated and proven. As such, we have been observing new trends where the schemes seem to be designed to provide a financial lifeline vs. being a means to exit the business.

For example, a restaurant facing a drop in customers or one that has closed down operations might file a false food spoilage claim, indicating that their refrigeration systems failed following a power issue. Retail shops that were forced to close down during the pandemic might stage a burglary. Warehouses filled with goods that no one is buying might fake a large water damage claim for goods stored in the facility. As indicated, we anticipate that this kind of suspicious claims activity will increase at least three-fold as owners get a handle of the true financial impact on their businesses. An increase in claims, combined with smaller frauds that are based on normal business operation, mean that this type of fraud could be significantly harder to detect.

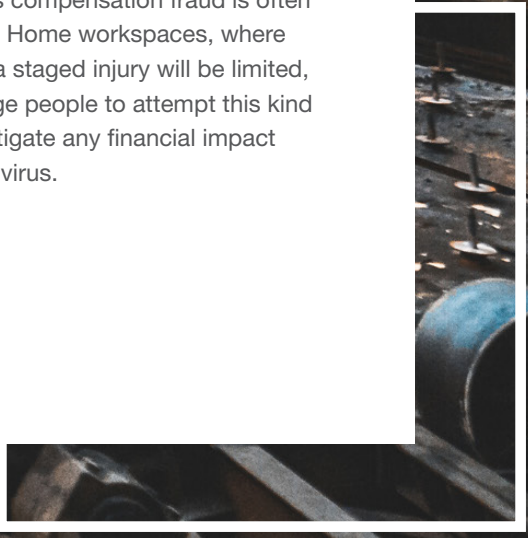
There is also the real potential to see increases in business owners using their personal insurance policies to mitigate losses from an economically troubled business. It will be the insurer's ability to spot these connections that will mitigate the risk.

WORKERS COMPENSATION

The effect of the COVID-19 pandemic on businesses of all kinds represents an interesting potential impact to workers compensation insurance. Because typical "sick leave" not involving short-term disability or another type of workplace issue is not typically addressed by their policies, workers compensation insurers might think they are not as economically exposed as other providers. However, we fully anticipate that both employers and employees might look to workers compensation insurance fraud to mitigate the financial impact of COVID-19. Suspicious workers compensation claims may increase by up to 40%.

We believe that many small and medium businesses will attempt to use workers compensation insurance to help cover salaries during their time of reduced activity. A company with reduced activity could be tempted to fake accidents or put people on sick leave instead of furloughing them or laying them off. While the intent may be noble, this kind of activity is still fraudulent, pushing the cost onto insurers and other policyholders, and it is a scenario we frequently observe in situations when a company is in sudden financial trouble. The reason that we come across this scheme primarily among small and mid-sized businesses is that to be successful, collusion between the employer and employee to fake a claim is required.

In many situations, workers compensation insurance does cover employees while working from home. As this is the new normal for employees around the world, we expect to see suspicious claims for work at home injuries to increase by up to 20%. Workers compensation fraud is often opportunistic. Home workspaces, where witnesses to a staged injury will be limited, may encourage people to attempt this kind of fraud to mitigate any financial impact related to the virus.



PERSONAL AUTO AND PROPERTY

Conventional wisdom might indicate that as a result of stay-at-home orders, work from home, and other social distancing strategies implemented globally that personal auto and property claims will decrease significantly - and thus the opportunity for fraud in these areas. In fact, the number of auto claims has already decreased significantly globally, to the extent that several insurers are refunding auto insurance premiums to their policyholders.

However, we've already observed that new fraud trends are likely to emerge and we believe other existing fraud schemes will increase, with that increase appearing around the end of 2020.

One new trend likely to become prevalent relates to those individuals making a living as ride-share drivers. The same factors that are keeping drivers off the road are making it increasingly difficult for ride-share drivers to generate revenue. This group is undoubtedly negatively affected by the economic circumstances related to COVID-19 as their automobile expenses — the means to their livelihood — might be now impossible to cover. We believe insurers will face an increase in total loss incidents such as fake fires or thefts from ride-share drivers unable to maintain their normal level of passengers. Related, we also anticipate that policyholders that can simply no longer afford car or lease payments due to layoffs, furloughs or reduced working hours may also participate in this method of fraud.

And although not nearly as drastic, auto insurers should be formulating strategies for how they deal with misrepresentation of usage by policyholders. While many rideshare drivers have seen their revenue drop significantly, delivery of all types (groceries, food, liquor, etc.) have significantly increased. Policyholders now operating as delivery drivers using their personal vehicles may not have self-reported this change in status, which would typically impact premiums.

From a homeowners insurance perspective, the increasing reliance on delivery drivers for many daily necessities may, unfortunately, also create new opportunities for fraudulent behavior. While we want to stress that the great majority of delivery drivers are honest and are providing an incredibly valuable service, there will be those that look to take advantage of the pandemic. Although the percentage increase is currently quite small, we are already beginning to see more "slip and fall" accident claims being made against both individual homeowners and commercial rental/condominium policies.

As we explored in the inaugural edition of Fraud Insights (Vol. 1: April 2020) fraud perpetrated by body shop and garage owners is already becoming an issue for insurers, especially in those countries with a mature auto market where these businesses are already struggling to survive. In the midst of the COVID-19 pandemic, as we previously indicated, body shops and garages are experiencing significantly reduced activity. As such, they might be tempted to mitigate the impact of lost revenue due to a lower number of accidents by faking claims, exaggerating the legitimate damage on vehicles before an appraiser comes to inspect it, taking advantage of maintenance operations to stage damages, tacking on exorbitant cleaning fees or storage fees, or falsifying windshield claims, to mention only a few.

HEALTH INSURANCE

Again, it is important to stress that we believe the vast majority of healthcare providers are honest. In many cases they are also the individuals who have been risking their own health to ensure the best possible outcome to this pandemic. At the same time, the greater healthcare ecosystem is not free from the negative economic impact of the COVID-19 pandemic, and the health insurance industry has witnessed this during previous economic downturns.

So, we should expect to witness an increase in fraud, waste, and abuse (FWA), both organized and opportunistic, associated with the pandemic. From an organized fraud network perspective, we have already seen emerging schemes specifically related to false testing, add-on services, medical supplies (e.g. personal protective equipment), and other services. Relaxed clinical laboratory certification will also increase the risk of phantom providers. Organized networks will also look to take advantage of expanded telemedicine benefits and utilization. In these cases, insurers should increase scrutiny related to new provider enrollments and claims associated with COVID-19 testing and treatments.

Since the industry has already seen a decrease in routine and non-urgent professional health services we know that many medical providers will face an economic burden. In the short term, trending analytics will reveal instances where a provider's utilization does not decrease as anticipated, In the longer term, as the industry returns to "normalcy," we expect a spike in opportunistic fraud to make up for lost revenues.

TRAVEL

We close out this special edition of Fraud Insights by looking at the potential impact of the COVID-19 pandemic on travel insurance carriers. Due to limited travel taking place as the result of "stay-at-home" recommendations and other government mandates, it's natural to assume that the travel insurance industry will not be impacted by fraud at the same levels as other lines of business. However, we have identified an uptick in suspicious claims, across all geographies in which we serve clients, which began immediately prior to "lockdowns" being initiated.

The first scheme requires collusion between travel agent and customer and involves initial bookings being modified by travel agents to add cancellation coverage. Passengers who had not purchased travel insurance, or had simply not included cancellation coverage on a policy covering the trip, worked with their travel agent to amend the booking after it was decided to cancel. The second scheme requires no collusion: Travellers simply canceled trips under false pretenses (often a faked injury or other medical reason) and filed claims. While neither scheme is unique to the COVID-19 pandemic, insurers should be diligent in looking for these suspicious claims.

CONCLUSIONS:

Although we have not yet observed significant spikes related to suspicious claims activity, history and our expertise in detecting potential fraud in the claims process leads us to believe we will see them. The economic impact to businesses and individuals around the world is evident and financial stress is a key indicating factor in the decision to commit fraud. We'll plan to revisit this topic in the second edition of Fraud Insights when Vol. 2 publishes in July 2020.

ABOUT SHIFT:

Shift Technology delivers the only AI-native fraud detection and claims automation solutions built specifically for the global insurance industry. Our SaaS solutions identify individual and network fraud with double the accuracy of competing offerings, and provide contextual guidance to help insurers achieve faster, more accurate claim resolutions. Shift has analyzed hundreds of millions of claims to date, and is the Frost & Sullivan 2020 Best Practices Award Winner for Global Claims Solutions for the Insurance Industry.

LEARN MORE AT WWW.SHIFT-TECHNOLOGY.COM