Women's World Banking

Microinsurance: Fraud Management

Financial institutions that are prepared to prevent and address fraud will ease the concerns of insurers, and serve their clients better.

Health microinsurance not only provides a crucial financial safety net for low-income families, especially women, but also can be a profitable value-added offering for institutions who implement it properly.

In 2006, Women's World Banking designed and launched ***Caregiver in Jordan****, a health microinsurance product that offers simple, affordable and relevant solutions for low-income clients, especially women. Since then, they have worked with network members in Peru, Egypt, Morocco, and Uganda to create similar health insurance products that respond to the needs of women and institutions. For more information on fraud management or other aspects of building a successful microinsurance product, see* ***Health Microinsurance: An Inclusive Approach.***

Fraud management is an essential component of the operating model for institutions offering microinsurance. Fraud in insurance is inevitable. In fact, if there is no fraud detected in the system, it indicates weak fraud management practices rather than a completely trustworthy base of clients. The 20-60-20 rule[1] applies to fraud. Approximately 20 percent of the target segment will never commit fraud, no matter the circumstances; 60 percent of clients are fundamentally honest but if the opportunity arises and the risk of being caught is perceived as low, they may cross the line; and the remaining 20 percent will commit fraud if the opportunity arises. Even worse, they may search for and create the opportunity themselves.

It is no surprise that fraud is a sore point for insurers. Each fraud case increases operational burden and costs, jeopardizing the sustainability of the product.

For a microinsurance products like *Caregiver*, claims documentation has to be simple and can increase the risk of fraud. This can be non-negotiable for some insurers who believe fraud cannot be controlled in this segment. Although insurers build projections for fraud in their pricing estimates, high levels of undetected fraud negatively impact pricing and deprive genuine clients of value from the product.

Financial institutions that can demonstrate their ability to control and prevent fraud effectively strengthen their relationship with the insurer and help keep pricing sustainable.

Women's World Banking's experience has shown the bulk of fraud can be effectively caught and controlled by designing strong fraud detection frameworks and action policies. A financial institution's fraud detection framework should cover three areas:

1. **Prevention**. It is important to communicate clearly to clients what constitutes fraud and the consequences of committing fraud. A strong but positively worded message delivered with a single, simple example (e.g., "changing information on the discharge certificate is considered fraud") and with a clear consequence, (e.g., "if a client commits fraud, the organization will not make the claims payment and will blacklist the client forever") is best. Institutions should provide staff with a prepared script that they are comfortable using when speaking with the clients.
2. **Detection.** Fraud detection is more effective with checks in the IT system (e.g., alert on date mismatches, client going to unregistered

[1] "Anti-Fraud Risk and Control Workbook," Peter Goldman (2009)

hospitals etc.), involving staff members who are not involved in the sales process, and defining the roles and responsibilities of each team member to build accountability. Because investigation is intensive manual work, it is costly. Fraud can be checked on a sample basis. Sample criteria is defined during the pilot phase e.g., claims filed within 20 days of coverage, repeat claims for the same individual, mismatch between the length of hospital stay and diagnosis, claims filed for a hospital that has not yet been visited.

3. **Action.** Each fraud case is unique and provides new information. It helps identify gaps in the processes and in turn improves efficiency of the system. Once fraud has been suspected, it is imperative to document. Include fraud cases in staff training to build knowledge. Notify branch and staff members of confirmed fraud cases before notifying the client. Clients who conduct fraud may not admit wrong-doing and may spread negative information about the financial institution with other clients. Have a communication plan in place in advance. Senior staff, such as branch managers, should deliver messages in the most appropriate way, and take necessary and appropriate actions against clients that commit fraud.