

## Identifying Factors that Influences Fraudulences in Non-Life Insurance Companies

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### Abstract

*Insurance fraud is the most common form of fraud in the world, aside from tax evasion. By its very existence, the insurance industry is prone to deception. Basic income levels in Vietnam tend to steadily rise as a result of improving socioeconomic conditions. As a result, the need for citizen security has increased and become more diverse. This study aims to study the predictor/s of anti-insurance fraud among non-insurer companies in Vietnam. This study was conducted using a questionnaire that was completed by 51 employees who are currently working in the 11 non-life insurance companies in Vietnam. It can be concluded that there is a significant relationship between all the four independent variables, namely external regulations, public context, management functions, and underwriting guidelines.*

**Keywords:** Insurance fraud, external regulations, public context, management function, Vietnam

### 1. Introduction

Insurance fraud of all kinds is on the rise, and its frequency has risen by roughly 30% in many cases compared to previous years (Burnham, 2008). According to a study Submitted to the Pennsylvania Insurance Fraud Prevention Authority, the number of fraud claims filed with insurance providers rose by 33% in the first decade of the twenty-first century, with auto insurance accounting for 72 percent of fraudulent claims (Burnham, 2008).

According to Burnham (2008), insurance firms paid out an estimated \$28.4 million in restitution as a result of fraud in 2008. In 2008 too, 4,000 people were arrested as a result of 20,911 insurance fraud prosecutions, resulting in \$1.9 million in civil fines. These investigations have resulted in the avoidance of over \$102 million in possible victim property loss as a result of fraud, according to the author (Burnham, 2008). It is estimated that up to 10% and 20% of all car insurance and home owners insurance claims, respectively, are fraudulent (Burham, 2008).

#### *Insurance Fraud Overview*

Insurance is a risk-management scheme that necessitates the retention of liquid assets in the form of reserve funds, which can then be used to pay loss claims. Insurance premiums provide a constant and large supply of cash to insurance firms. Consistent cash flow is a valuable economic resource that can be quickly diverted. Insurance firms are tempting targets for takeover and loot schemes because of their large stockpiles of liquid assets (Glink, 2009).

### *Insurance Fraud In Vietnam*

Basic income levels in Vietnam have a tendency to steadily rise as a result of improving socioeconomic conditions. As a result, the need for citizen security has increased and become more diverse. Purchasing insurance is one of the most important safety strategies, and car insurance is one of the insurance products. According to the Review of Finance (ROF) 2017, the demand for non-life insurance in general, and vehicle insurance in particular, has expanded rapidly, but at a modest scale, with insurance premiums as a percentage of GDP of less than 2%. (while the rate in other countries by region is 7-8 percent ).

### *Insurance Fraud (Global)*

Insurance fraud costs the United States more than \$80 billion per year (Taylor, 2014). Fraud comes in several types, and according to a report conducted by the North Carolina Department of Insurance (2011), at least one tenth of all auto and homeowners insurance claims are false. This level of fraud incurs costs in the form of higher premiums for customers and increased operating costs for insurance providers, totaling billions of dollars for insurers (AIPSO, 2009).

## **2. Research Objective**

- To profile the respondents' characteristics among the non-insurer companies in Vietnam
- To examine the perceived external regulations aspect among the non-insurer companies in Vietnam
- To examine the perceived public context aspect among the non-insurer companies in Vietnam
- To examine the perceived management functions aspect among the non-insurer companies in Vietnam
- To examine the perceived underwriting guidance aspect among the non-insurer companies in Vietnam

## **3. Literature Review**

### *External Regulations*

Vietnam's economy continues to improve. Many Vietnamese have already been brought out of poverty as a result of economic development. Simultaneously, the middle class is growing. WTO membership has provided Vietnam with access to both foreign markets and capital, as well as strengthened Vietnamese businesses, especially insurance businesses, through increased competition.

Many foreign insurance companies (particularly in the life segment) have offices in Vietnam and regard the country as a natural extension of their regional or global operations. New products are in the works. The creation of agency networks is underway. Local businesses have usually displayed more price restraint than their counterparts elsewhere in the area in the non-life market. In Vietnam, motor insurance, this is mostly a thankless and profitless line in emerging markets, accounts for around a third of non-life premiums written.

### *Public Context*

Anti-fraud procedures are often viewed differently by a diverse group of people in various public contexts (Secovnie, 2008). Customers for insurance fall into a variety of categories, which results in a dynamic level of response to anti-fraud procedures. Customers' history, including their place of birth, education, and wages, all play a role in deciding their degree of interest in insurance claim fraud (Glink, 2009).

### *Management Functions*

Companies' management roles also assigned responsibility for handling insurance fraud to each of the company's hierarchy. The Board of Directors and Audit Committee play an important role in anti-fraud efforts across the insurance industry (Rice, 2008). The Board of Directors is made up of all of the company's directors, and it serves as the company's highest decision-making and policy-making body. According to Rice (2009)'s research, the executive committee and division managers play an important role in anti-fraud procedures. Internal audit teams are crucial in monitoring and overseeing the execution of anti-fraud procedures. (2009, Glink)

### *Underwriting Guidance*

Underwriting guidelines is a practical approach to developing a successful anti-fraud procedure in which the authorities as well as the association of insurers have specific guidance that standardises the underwriting process for insuring companies. This can include software that keeps track of customer records and claims history, which is useful in detecting fraud. Insurance fraud is estimated to cost the insurance industry billions of dollars per year, and it has thus become a major concern for both insurers and the general public (Glink, 2009; Rice, 2008; Scafidi, 2010; Scott, 2010; Secovnie, 2008; Tennyson, 2008). Insurance evasion costs customers up to \$400 in additional insurance premiums a year in the case of car insurance (Auto Insurance Plan Service Office (AIPSO), 2009).

## **4. Methodology**

For this study, 51 employees have participated who are currently working in the 11 non-life insurance company in Vietnam. The selection of sample from the pool of 11 companies, which are occupied up to 80% non-life market shares in Vietnam by convenient sampling method from total of 29 non-life insurers companies in Vietnam. For this particular study, the data gathered by distributing questionnaires to employees.

## **5. Result**

### *Descriptive Statistic*

	Frequency (N)	Percentage %
<u>Gender</u>		
<b>Male</b>	47	92.2%
<b>Female</b>	4	7.8%
<u>Age group</u>		
<b>21-30</b>	6	11.8%
<b>31-40</b>	31	60.8%

<b>41-50</b>	12	23.5%
<b>51-60</b>	2	3.9%
<u>Education Level (Highest degree)</u>		
<b>University/College</b>	38	74.5%
<b>Master</b>	13	25.5%
<u>Insurance company which you work in</u>		
<b>PTI</b>	8	15.7%
<b>UIC</b>	1	2%
<b>MIC</b>	10	19.6%
<b>BIC</b>	12	23.5%
<b>Baolong</b>	10	19.6%
<b>BSH</b>	8	15.7%
<b>Liberty</b>	2	3.9%
<u>Your department</u>		
<b>Board of director</b>	5	9.8%
<b>Underwriting Department</b>	5	9.8%
<b>Los Surveyor Department</b>	15	29.4%
<b>Claim Department</b>	21	41.2%
<b>Internal Audit</b>	2	3.9%
<b>Operation Department</b>	3	5.9%

#### EXTERNAL REGULATIONS – REGULATIONS TO INSURANCE FRAUDS

Table 4.2 Itemized Questions for External Regulations, in Percentage

No	Statements	1	2	3	4	5
1.1	Criminal Code 2015 has created the legal corridor for anti frauds in insurance.	5.9%	7.8%	33.3%	<b>37.3%</b>	15.7%
1.2	By-law documents relating to anti-frauds are clear and easy to follow.	7.8%	17.6	<b>43.1%</b>	29.4%	2.0%
1.3	You know well the penalty by the amount of fine and the number of years of imprisonment stipulated for insurance frauds.	9.8%	2.0%	27.5%	<b>45.1%</b>	15.7%
1.4	The communication and Media have broadcasted criminal code relating to insurance frauds to insurance participants.	17.6%	<b>37.3%</b>	29.4%	9.8%	5.9%
1.5	People are well aware of the relation between Criminal Penalty and Insurance frauds.	25.5%	<b>47.1%</b>	17.6%	5.9%	3.9%

\*Note: 1: Strongly Disagree, 2: Disagree, 3: Neutral, 4: Agree, 5: Strongly Disagree

### *PUBLIC CONTEXT IMPACTS IN INSURANCE FRAUDS*

#### *Itemized Questions for Public context, in Percentage*

No	Statements	1	2	3	4	5
2.1	Customers in city have higher interests in insurance claim frauds rather than customers in countryside.	7.8%	13.7%	21.6%	<b>31.4%</b>	25.5%
2.2	Customers with higher income normally have less interests in insurance claim frauds.	11.8%	<b>37.3%</b>	35.3%	9.8%	5.9%
2.3	Customers with higher education normally have less interests in insurance claim frauds.	7.8%	31.4%	<b>35.3%</b>	21.6%	3.9%
2.4	Regression circle of business is also a reason leading to insurance frauds.	5.9%	13.7%	31.4%	<b>37.3%</b>	11.8%
2.5	Culture and social behaviors could be a reason leading to insurance frauds.	0.0%	9.8%	21.6%	<b>52.9%</b>	15.7%

\*Note: 1: Strongly Disagree, 2: Disagree, 3: Neutral, 4: Agree, 5: Strongly Disagree

### *MANAGEMENT FUNCTIONS IMPACTS IN INSURANCE FRAUDS*

#### *Itemized Questions for Management functions, in Percentage*

No	Statements	1	2	3	4	5
3.1	Your company has ordained the responsibility to each of company's hierachy in managing insurance frauds.	0.0%	17.6%	21.6%	<b>41.2%</b>	19.6%
3.2	Board of Directors and Audit Committee play an important role in anti fraud.	2.0%	13.7%	<b>37.3%</b>	33.3%	13.7%
3.3	Executive committee and branches' managers play an important role in anti fraud.	2.0%	11.8%	13.7%	<b>43.1%</b>	29.4%
3.4	Internal Audit team play an important role in controlling and supervising the implementation of anti fraudulent procedures.	3.9%	7.8%	33.3%	<b>39.2%</b>	15.7%
3.5	It is necessary to have an award policy to managers in automobile insurance claim anti-frauds.	0.0%	7.8%	17.6%	<b>43.1%</b>	31.4%

\*Note: 1: Strongly Disagree, 2: Disagree, 3: Neutral, 4: Agree, 5: Strongly Disagree

### *UNDERWRITING GUIDANCE IMPACTS IN INSURANCE FRAUDS*

#### *Itemized Questions for underwriting guidance, in Percentage*

No	Statements	1	2	3	4	5
4.1	The undewriting guidance are clear and suitable to automobile practices.	2.0%	5.9%	27.5%	<b>39.2%</b>	25.5%
4.2	You comply with the guidance in underwriting automobile insurance.	0.0%	7.8%	17.6%	<b>45.1%</b>	29.4%
4.3	If underwriting employees carry out strictly of underwriting process, it helps reducing frauds.	2.0%	0.0%	11.8%	35.3%	<b>51.0%</b>

4.4	Company has software to record the information of customers and automobile claim history which is helpful to anti-frauds.	2.0%	7.8%	17.6%	35.3%	<b>37.3%</b>
4.5	The connection of information among insurance companies help managing client's history and help anti frauds.	9.8%	0.0%	11.8%	<b>39.2%</b>	<b>39.2%</b>

\*Note: 1: Strongly Disagree, 2: Disagree, 3: Neutral, 4: Agree, 5: Strongly Disagree

## MULTIPLE REGRESSION ANALYSIS

### Result for Multiple Regression

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.860 <sup>a</sup>	.739	.704	2.13406

a. Predictors: (Constant), External Regulations, Public Context, Management function, Underwriting Guidance, Claim Procedure, Business Operation Management

#### ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	568.242	6	94.707	20.795	.000 <sup>b</sup>
	Residual	200.385	44	4.554		
	Total	768.627	50			

a. Dependent Variable: Anti-Insurance Fraud

b. Predictors: (Constant), External Regulations, Public Context, Management function, Underwriting Guidance, Claim Procedure, Business Operation Management

#### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standard Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.358	2.052		.661	.512
	External Regulations	-.011	.087	-.011	-.126	.900
	Public Context	-.140	.104	-.118	-1.344	.186
	<b>Management function</b>	.510	.120	.500	4.255	<b>.000</b>
	Underwriting Guidance	.131	.157	.135	.836	.408

a. Dependent Variable: Anti-Insurance Fraud

## 6. Conclusion

The goal of this quantitative study was to determine which anti-fraud protocols should be used when handling auto insurance claims. Awareness of claims processes and procedures will aid in the development of procedures to enhance non-life insurers' anti-fraud policies. This will invariably result in

less financial losses and more effective and efficient fraud case management. This research might provide insurance companies with a checklist or guideline for improving their corporate governance policies.

Fifty-one people replied to the survey, all of whom worked in the insurance industry and had more than 15 years of experience investigating insurance fraud. A series of 15 questions were asked of the participants to gain insight into their interactions with insurance fraud and claim processes. The findings proved that there exists a significant relationship between all the four independent variables which are namely external regulations, public context, management functions as well as underwriting guidance.

## 7. Recommendation

Person and organisational communication among all parties involved in an insurance fraud investigation must improve. From the start of the investigation, communication should be open and comprehensive, and information sharing should continue until the case is closed. Both parties involved in these cases should be aware of the potential for Group Think to affect communication and decision-making, and steps should be taken to minimise its effect. Since this was a small study with only 51 participants, the results are likely to be limited. The participants, on the other hand, came from a wide range of backgrounds, including all 11 insurance firms, and had years of experience investigating insurance fraud. Furthermore, despite the fact that the findings only contained a small number of views and experiences, the knowledge is important to everyone concerned.

## 8. Limitation

This study's shortcomings, like many others, include the significant drawback of having one-time users as well as non-life insurance users as users of this programme in this study. The second restriction is that the respondents are limited to only those from Vietnam region. With this constraint, there is a possibility of bias in the responses to the questions in terms of the localised interpretation of the problem.

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