

## Identifying Predictors of Perceived Claims of Insurance Fraudulence

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### **Abstract**

*Insurance fraud affects nearly every industry in the world, costing companies and others that pay insurance premiums billions of dollars per year. Insurance fraud can be found in almost any area of business where liability insurance is carried and intended to protect consumers; illegal activity can be detected in almost any field of business where liability insurance is carried and intended to protect consumers. The aim of this study is 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 exists a significant relationship between all the three independent variables which are namely claim procedure as well as business operation management and the dependent variable which is the anti-fraud procedure.*

**Keywords:** *Insurance fraud, claim procedure, business operation management, anti fraud, Vietnam*

### **1. Introduction**

Insurance fraud affects nearly every industry in the world, costing companies and others that pay insurance premiums billions of dollars per year. The Coalition Against Insurance Fraud warns that "the credit crunch, subprime meltdown, higher gas prices, and general economic hardship have driven more drivers to pursue a bailout by insurance money" (Scott, 2010). According to a survey conducted by Scott (2010), the number of people who believe fraud is unethical has decreased from 91 percent to 82 percent between 2005 and 2010, owing to the fact that they have begun to equate insurance firms with banks, mortgage companies, and other major financial institutions preying on ordinary customers (Scott, 2010).

Many people thought that establishing state fraud bureaus with special enforcement divisions dedicated to insurance fraud would increase the efficiency and results of fraud detection and prosecution (Rice, 2008). According to Rice (2008), state fraud bureaus failed to bring a large number of insurance fraud cases to trial and referred far fewer cases to the Attorney General's office for prosecution when they were established.

#### *Insurance fraud overview*

What is the concept of insurance fraud? To defeat insurance fraud, one must first understand the concept of insurance. It is a contract between an insurer and an insured in its most basic form. In a contract, the insurer protects the insured against injuries, costs, or liability resulting from an unforeseeable case. For insurance to be legitimate there must be no pre-existing conditions. Obtaining car insurance following an accident, for example, is not insurance and does not

compensate the insured for any injuries sustained. When people want to make money by breaking the terms of an insurance contract, they are committing insurance fraud. Instead of joining those who have no damages but want to be insured in case an unknown occurrence occurs, perpetrators of insurance fraud attempt to cause losses or harm.

### *Insurance Fraud In Vietnam*

According to IAV's study, the loss ratio for automobile vehicle insurance accounted for 45.78 percent of the overall non-life insurance market in 2017, (compensation reserve is included). The combined compensation (including reserves and business expenses) of automotive vehicle insurance remained high, and one of the key explanations for the high loss ratio is fraudulent conduct concerning motor vehicle insurance, which has become increasingly sophisticated and has a wide scale. (2017, IAV)

### *Insurance Fraud Global)*

Internal fraud is characterised as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets." In addition to consumer fraud and "insider" fraud, in which professionals from different fields become involved in fraud schemes or scams, there is also "internal" fraud, which is defined as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication" (Hillison, Sinason, Carson, & Marlett, 2000).

## **Research Objective**

- To examine the perceived claim procedure aspect among the non-insurer companies in Vietnam
- To examine the perceived business operation management aspect among the non-insurer companies in Vietnam
- To examine the perceived anti insurance fraud aspect among the non-insurer companies in Vietnam
- To identify the predictors of anti-insurance fraud among the non-insurer companies in Vietnam

## **2. Literature Review**

### *Claim Procedures*

According to the "Giao Thong newspaper" (2013), all enterprises recognise the seriousness of this urgent matter and want the entire insurance industry, from agency to management, the Insurance Association, and insurance enterprises to join hands to gradually limit this issue. Non-

life insurance companies must create their own policies and rules to identify and deter insurance fraud in order to reduce insurance fraud.

### *Business Operation Management*

According to Le Hong Nhung (2016) in her article "Solutions for Anti-Fraud in Vehicle Car Insurance at PVI Thang Long," the typical solutions in Vietnam are to establish good relationships with relevant authorities, improve the efficiency of certificate printing management, improve agent quality, and cement the efficiency of damage assessment. During the analysis, the research team looked into aspects on preventing car insurance fraud by non-life insurance enterprises in Vietnam, but almost none of the research topics indicate how the prevention process is carried out, with the majority of them researching to examine the condition of profiteers and from which to suggest and complete solutions.

### *Anti Fraud Procedures*

Using the Internet to exchange details regarding fraudulent claims with other insurers, lobbying lawmakers to increase companies' ability to recognise suspect claims, developing claims databases, and implementing "training programmes to assist insurers in identifying and prosecuting fraud and public awareness initiatives to raise public awareness about the danger" are only a few of the recent changes (Insurance Research Council, 2002). The Insurance Research Council (2002) sent a survey to 150 insurers to see if they had made any recent progress in their anti-fraud efforts. Although the majority of insurance companies see fraud as a serious issue, they also admitted that current measures are only "moderately successful."

Furthermore, according to the Insurance Research Council (2002), 82 percent of businesses have anti-fraud systems in place, with all large businesses having them and just 64% of smaller businesses having them. However, 63 percent of businesses said they have these services only because they are required by the state, which they see as a cost of doing business. Insurance firms' key efforts to eliminate fraud is fraud detection training (87 percent), providing a manual of red flags for underwriters to refer to (81 percent), and database searches (80 percent) (Insurance Research Council, 2002).

## **3. 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.

## 4. 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%

*CLAIM PROCEDURE IMPACTS IN INSURANCE FRAUDS*

*Itemized Questions for Claim procedure, in Percentage*

No	Statements	1	2	3	4	5
5.1	Company has a suitable automobile claim handling procedures.	2.0%	5.9%	23.5%	<b>43.1%</b>	25.5%
5.2	Automobile claim handling procedures indicate the function clearly to each of company's hierarchy.	2.0%	3.9%	15.7%	<b>47.1%</b>	31.4%
5.3	Insurance profiles (customers and claim history) are properly recorded in the system for the reference of claim employees.	0.0%	5.9%	25.5%	<b>43.1%</b>	25.5%
5.4	Time pressure in handling claim impacts on controlling automobile insurance claim frauds.	2.0%	15.7%	<b>37.3%</b>	<b>37.3%</b>	7.8%
5.5	You have seen insurance frauds but claim employees ignored that fraud for supporting customers.	3.9%	21.6%	33.3%	<b>37.3%</b>	3.9%

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

*OPERATION MANAGEMENT IMPACTS IN INSURANCE FRAUDS*

*Itemized Questions for Business operation management, in Percentage*

No	Statements	1	2	3	4	5
6.1	The training on anti fraud has been well provided to all insurance employees to insurance agents.	3.9%	23.5%	<b>27.5%</b>	25.5%	19.6%
6.2	The independent claim survey center helps managing automobile insurance claim frauds.	0.0%	11.8%	<b>39.2%</b>	27.5%	21.6%
6.3	Company has the penalty guidance to automobile garages breaching frauds.	9.8%	21.6%	<b>31.4%</b>	29.4%	7.8%
6.4	Pressure on premium income is also a reason leading higher insurance frauds.	7.8%	7.8%	27.5%	<b>45.1%</b>	11.8%
6.5	Company has a award policy to agents who have discovered frauds.	2.0%	17.6%	<b>29.4%</b>	<b>29.4%</b>	21.6%

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

*ANTI-INSURANCE FRAUD*

*Itemized Questions for Anti-Insurance Fraud, in Percentage*

No	Statements	1	2	3	4	5
1	The key initiative implemented to improve insurance fraud detection is organization restructuring	0.0%	3.9%	19.6%	<b>51.0%</b>	25.5%
2	The key initiative implemented to improve insurance fraud detection is through training to improve employee skills	2.0%	13.7%	25.5%	<b>41.2%</b>	17.6%
3	The key initiative implemented to improve insurance fraud detection is process changes	2.0%	9.8%	25.5%	<b>33.3%</b>	29.4%
4	The key initiative implemented to improve insurance fraud detection is enhance control mechanisms	0.0%	3.9%	11.8%	<b>49.0%</b>	35.3%
5	The key initiative implemented to improve insurance fraud detection is overall improvement in customer service	0.0%	15.7%	23.5%	<b>35.3%</b>	25.5%

\*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 Square	R	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
	Claim Procedure	.036	.087	.029	-.126	.900
	<b>Business Operation Management</b>	.447	.104	.367	-1.344	.186

a. Dependent Variable: Anti-Insurance Fraud

**5. Conclusion**

Insurance fraud can be found in almost any area of business where liability insurance is carried and intended to protect consumers; illegal activity can be detected in almost any field of business where liability insurance is carried and intended to protect consumers.

The most common motivation for anyone to commit insurance fraud is to benefit (financially) from an act that can be blamed on the insurance company. An insured individual or company inflating the value of the property being insured is one form of insurance fraud committed for financial gain. When the insured's property is lost and the insurance provider must pay him or her, the insured is likely to receive a higher monetary amount than the value of the destroyed property.

The findings proved that there exists a significant relationship between all the three independent variables which are namely claim procedure as well as business operation management and the dependent variable which is anti fraud procedure.

## 6. Recommendation

With over 10% of insurance claims being false, there are a large number of people involved in the prosecution of these crimes (Burham, 2008). These professionals must work across company lines to ensure that those responsible for the crimes are brought to justice. Law enforcement authorities and insurance providers must find more convenient ways to connect, which can easily be accomplished by the use of email. Creating specialised task forces consisting of members from all parties that meet on a regular basis to discuss patterns, policies, and motivations, on the other hand, would be extremely beneficial.

## 7. Limitation

The limitation is that the study is restricted to only the top 11 contributor of market share from the non life insurance companies variable in Vietnam currently which are 29. The next limitation is that the fact that the data collected from this sample is highly contextual to factors such as place and time of data collection, mood and time available to the respondents, hence possibilities exist to get diverse results as and when the context may vary.

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