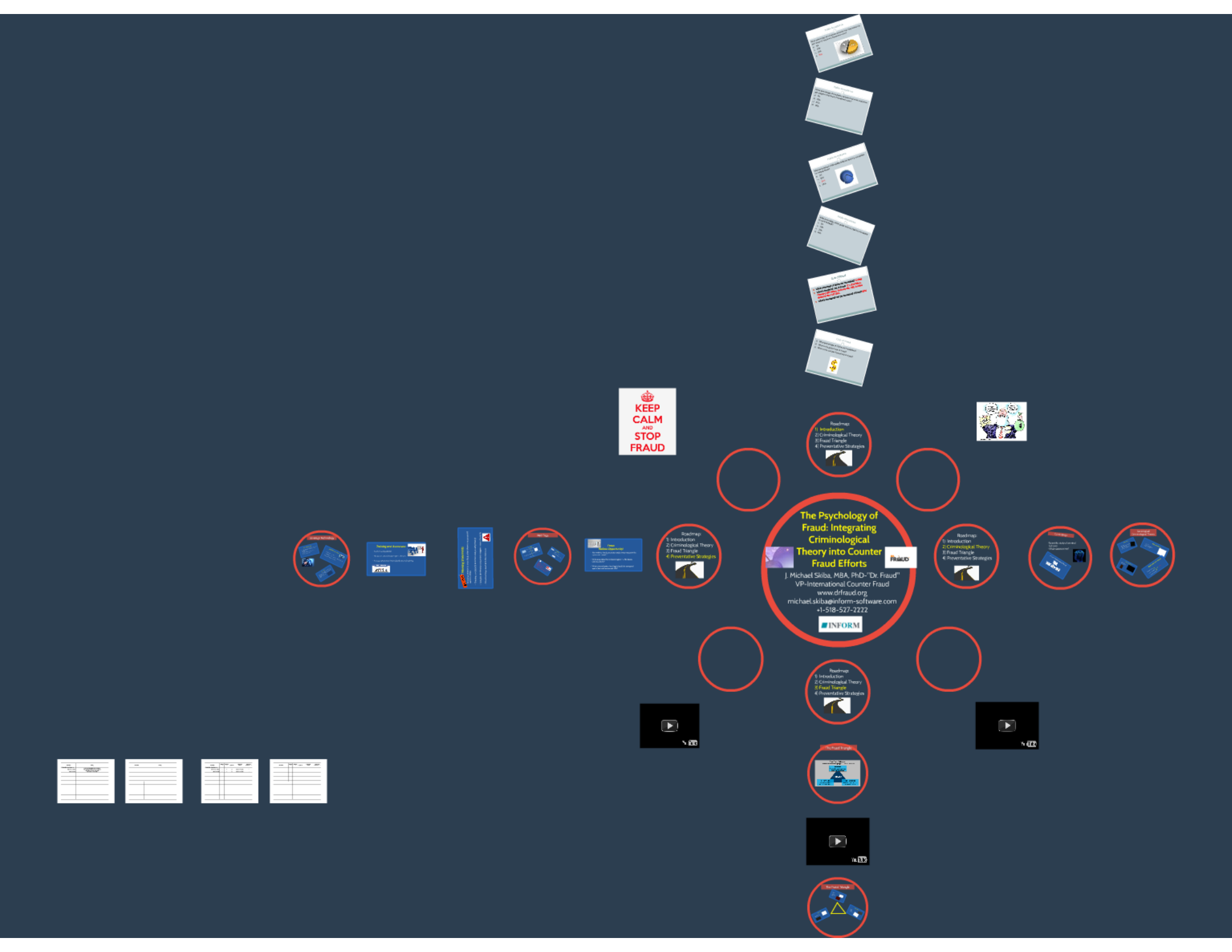

The Psychology of Fraud: Integrating Criminological Theory into Counter Fraud Efforts
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FRAUD
KEEP CALM AND STOP FRAUD
Roadmap:
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Cost of Fraud

1) What percentage of claims are fraudulent?
2) What is the global cost of fraud?
3) What is the cost per household of fraud?



Cost of Fraud

1) What percentage of claims are fraudulent? 10-20%
2) What is the global cost of fraud? U.S.-$32 Billion, Canada-$ 100 Million, Germany-4bn EUR, Sweden detected 40m EUR 2011
3) What is the annual cost per household of fraud? $950

Public Acceptance

What percentage of the public believes that it is acceptable to commit fraud?

a) 5%

b) 10%

c) 25%

d) 50%

Public Acceptance

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What percentage of the public believes that they would not get caught if they filed a fraudulent claim?

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IT ONLY HURTS WHEN I LAUGH...
...ALL THE WAY TO THE BANK!
BOGUS INSURANCE CLAIMS
SCAMMER
$
DAVE GRANLUND © www.davegranlund.com







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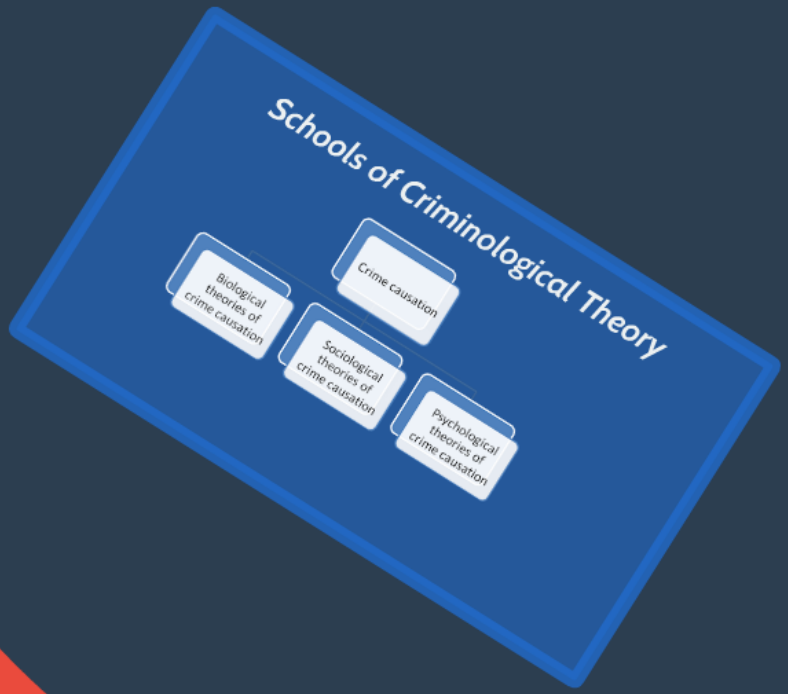
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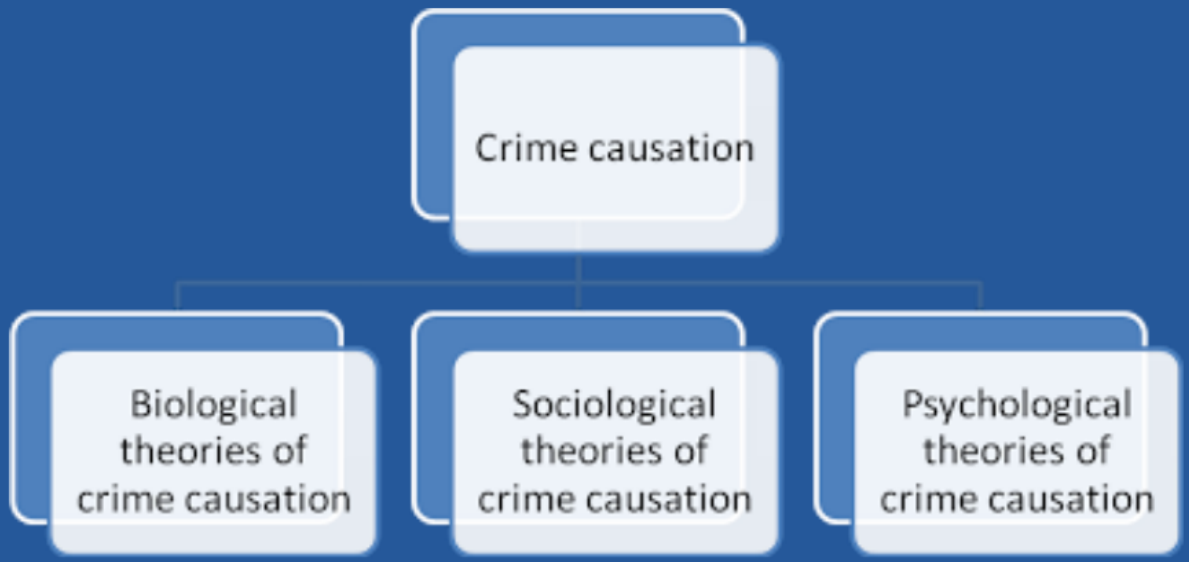
Criminology

-Scientific study of criminal behavior
-What causes crime?





Schools of Criminological Theory



Sociological Criminological Theory

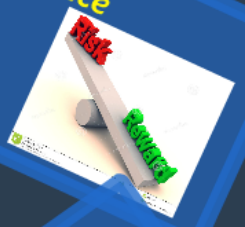
Strain Theory

- Frustration
- Can't obtain goals through normal means
- Resort to crime (fraud)



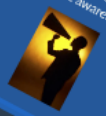
Rational Choice

- Classical
- Cost-benefit analysis
- Risk vs. reward



Deterrence Theory

- High risk deters
- Make a rational decision
- Public awareness





Routine Activities Theory

- Suitable target
- Capable guardian
- Motivated offender

→ FRAUD

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Deterrence Theory

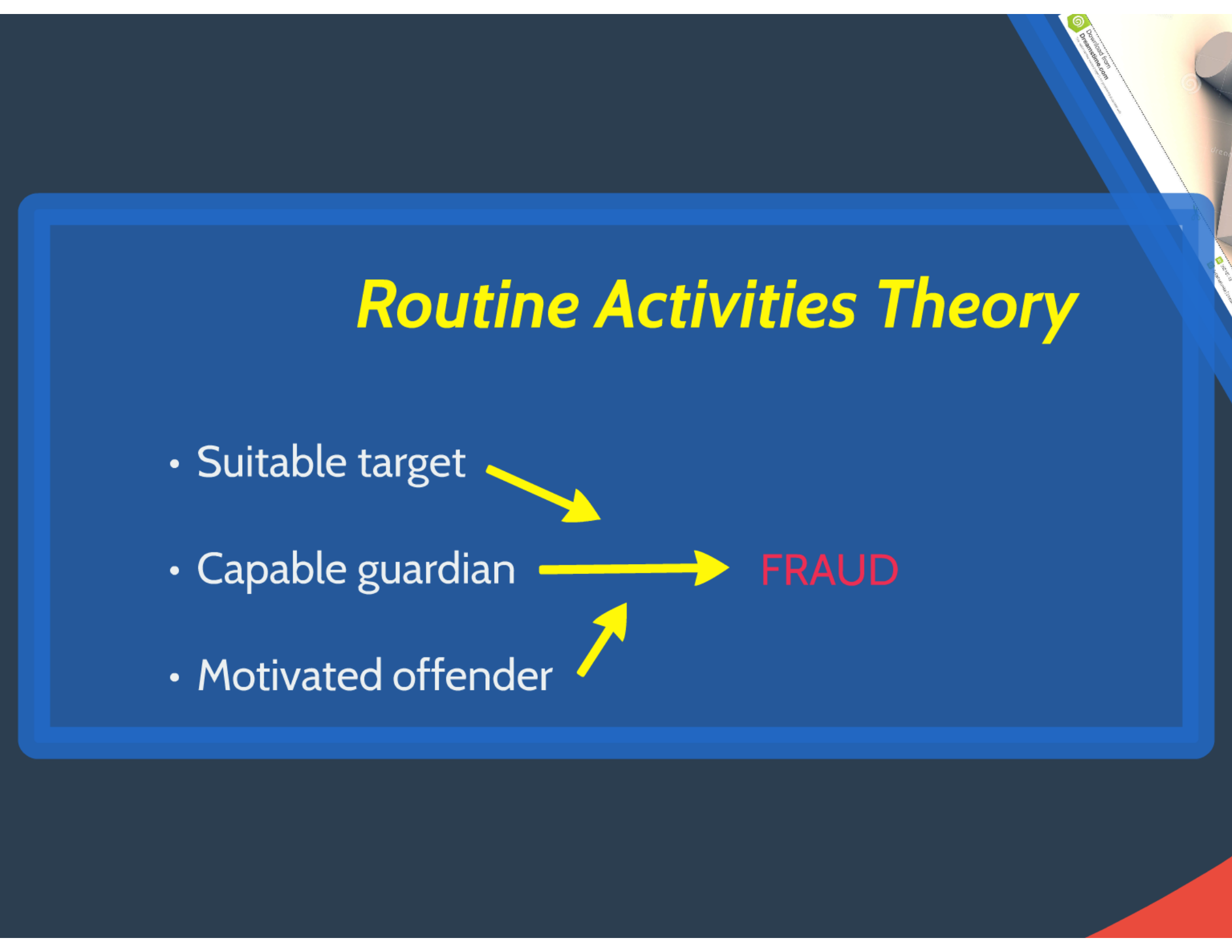
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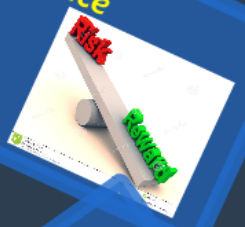
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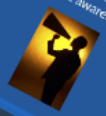
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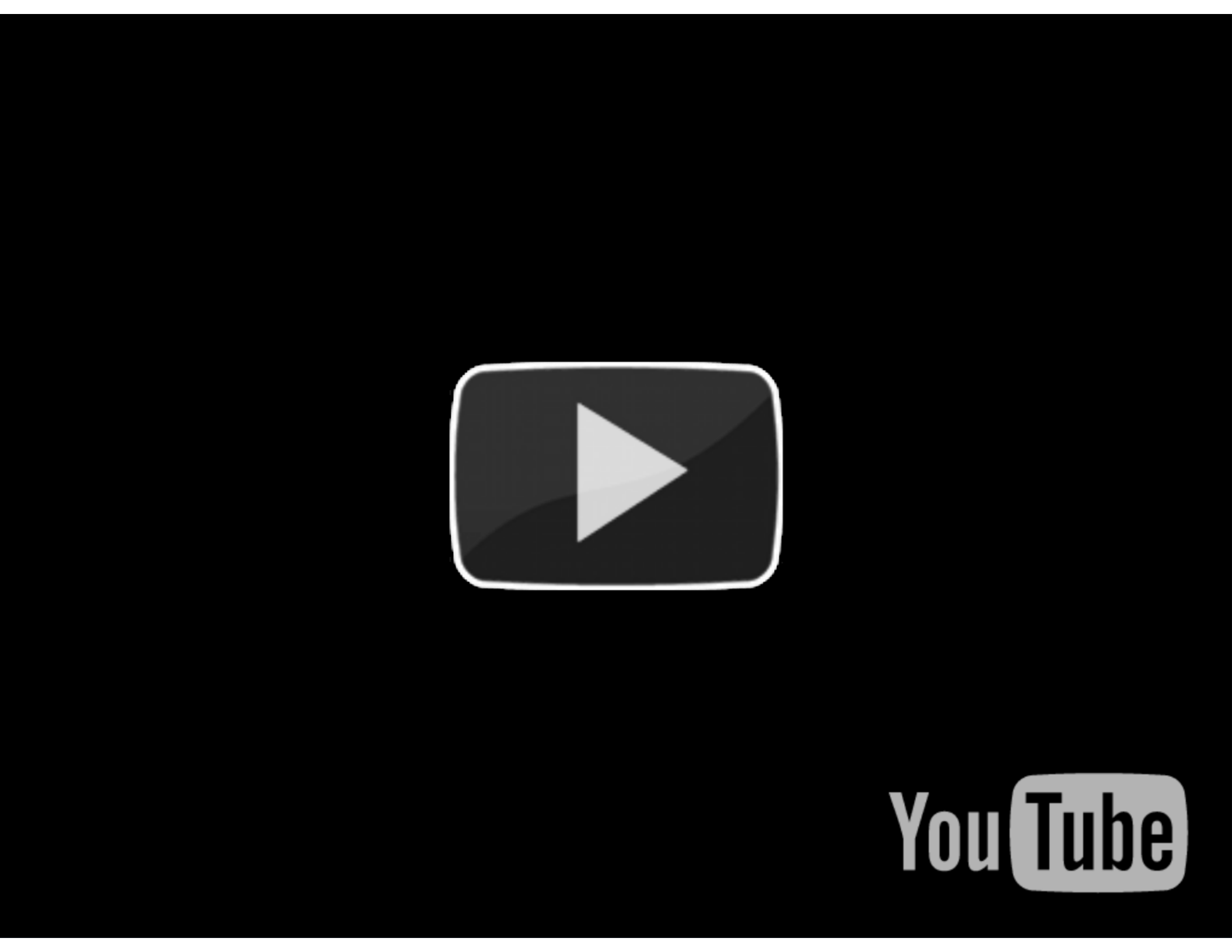
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YouTube



Theory into Counter Fraud Efforts

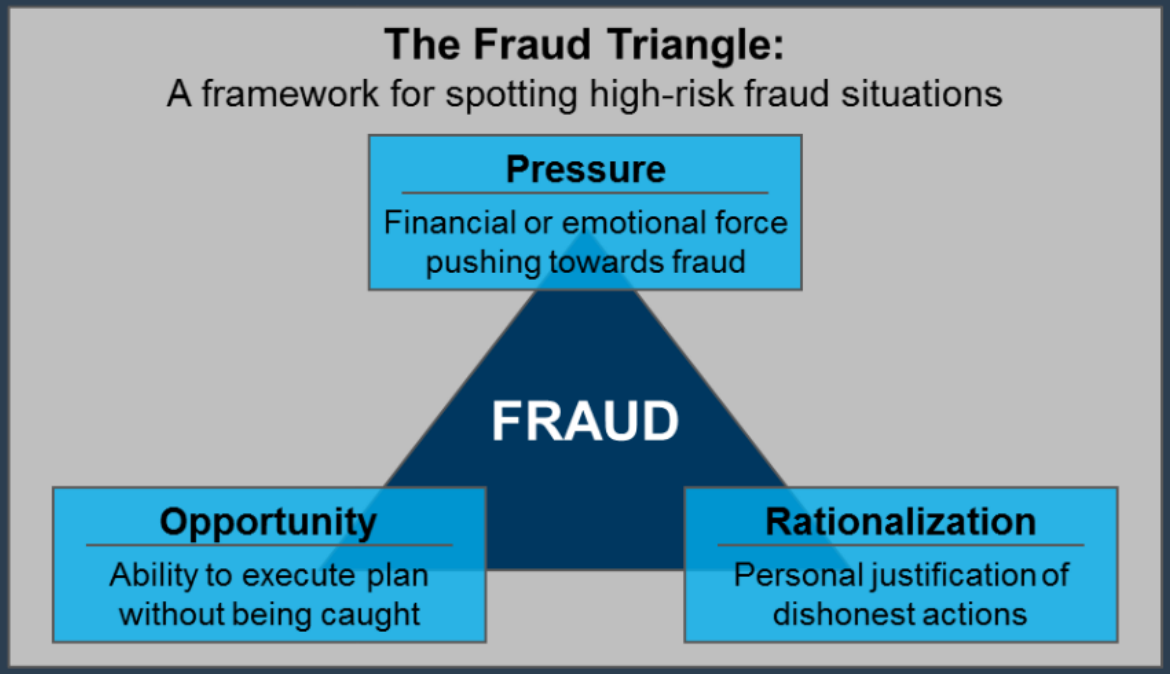
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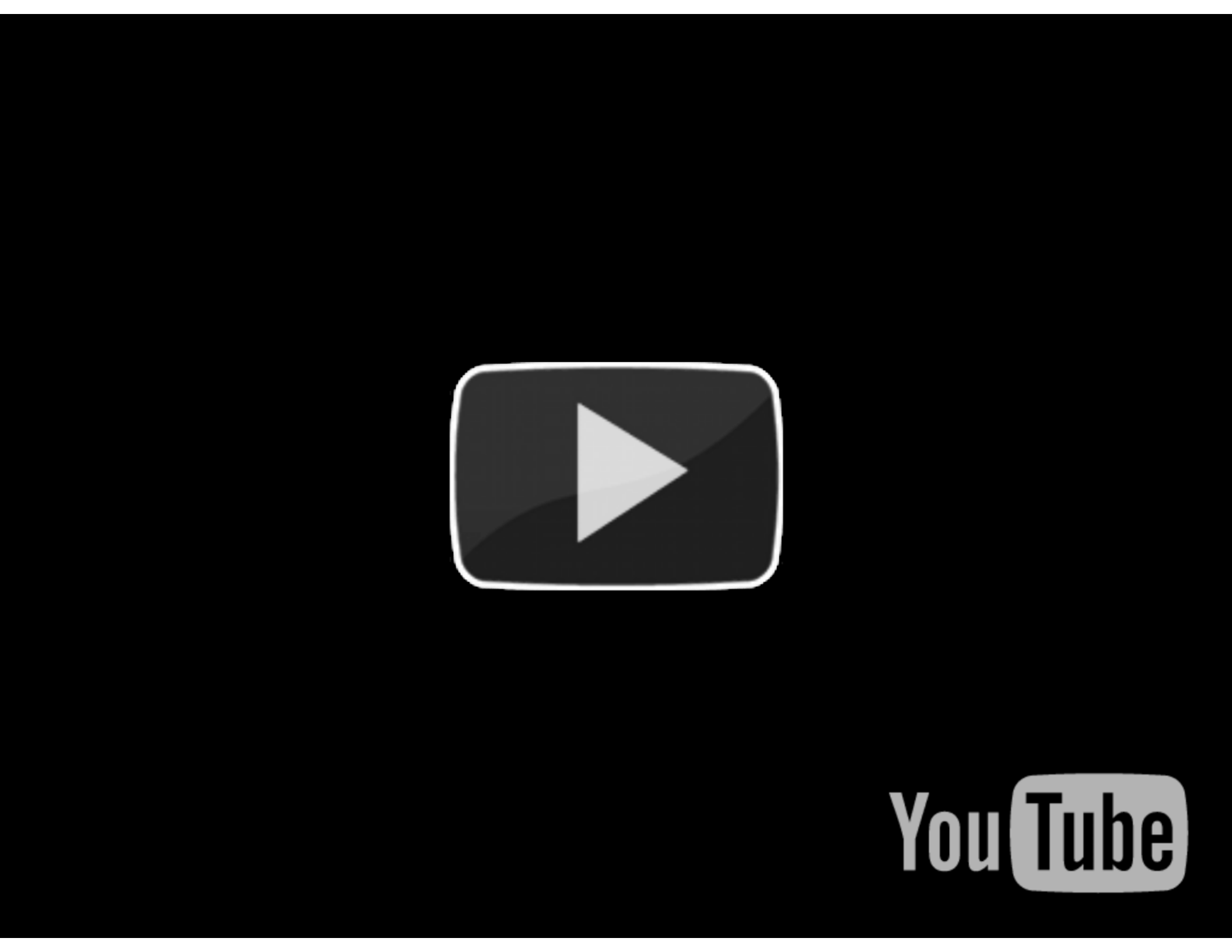
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The Fraud Triangle




YouTube







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Focus
Reduce Opportunity!

- How might a fraud perpetrator exploit weaknesses in the system of controls?
- What areas does the company/agency suffer losses (vulnerabilities)?
- What external factors (red flags) should the company/agency be most concerned with?

Red Flags

Red Flags



Identify Risk (Vulnerabilities)



Develop Red Flags

Integrate Flags into Internal Controls (staff, analytics etc.)

Monitor and Modify

Vulnerabilities

- Underwriting-new business
- Claims
- SIU referral process
- Provider fraud-medical, attorneys, service
- Internal-theft

Red Flags

- Claim on new policy
- Multiple prior
- Incident with no police/witnesses
- Claimant eager to settle
- UW-policy, mis-representation, "international ties", financial
- LAW-billing upcoding, unbundling, services not rendered
- Health-billing upcoding, unbundling, services not rendered
- Kickbacks for referrals
- Group fraud-ghost employees, ineligible dependents
- Employee fraud-mis-representing on enrollment application



Red Flags



Identify Risk (Vulnerabilities)

↓

Develop Red Flags



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Warning Statements

- Cheating behavior is more likely when there is no perceived harm to others
- Cheating is related to detection and penalty (theory)
- Integrity deceleration statement -triggers internal honesty
- Fraud warning statement-zero tolerance



Training and Awareness



- Fix the social problem
- Showcase zero tolerance-press releases
- Increase awareness-internal and external training



Leverage Technology

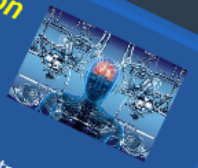
Anti-Fraud Programs

- 95% carriers felt analytics was the future of fraud prevention
- 66% felt very vulnerable with current system-lack of knowledge
- Internal or external
- Used at any stage-Application, UW, Claims, SIU
- ROI 7:1
- 10,000 batch-30% suspicious



SIU Analyst or Liaison

- Need a human component
- Need monitoring and modification as new trends develop
- Gatekeeper-Routine Activities Theory

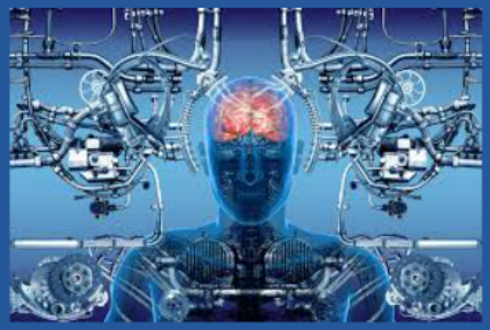


Link Analysis

- Shows patterns and relationships: Phone, addresses, VIN's, emails, IP, fax, social networking
- Shows people are connected when they claim they are not
- Staged losses
- Shows history of accidents



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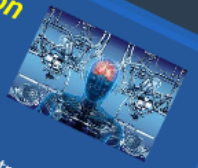
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