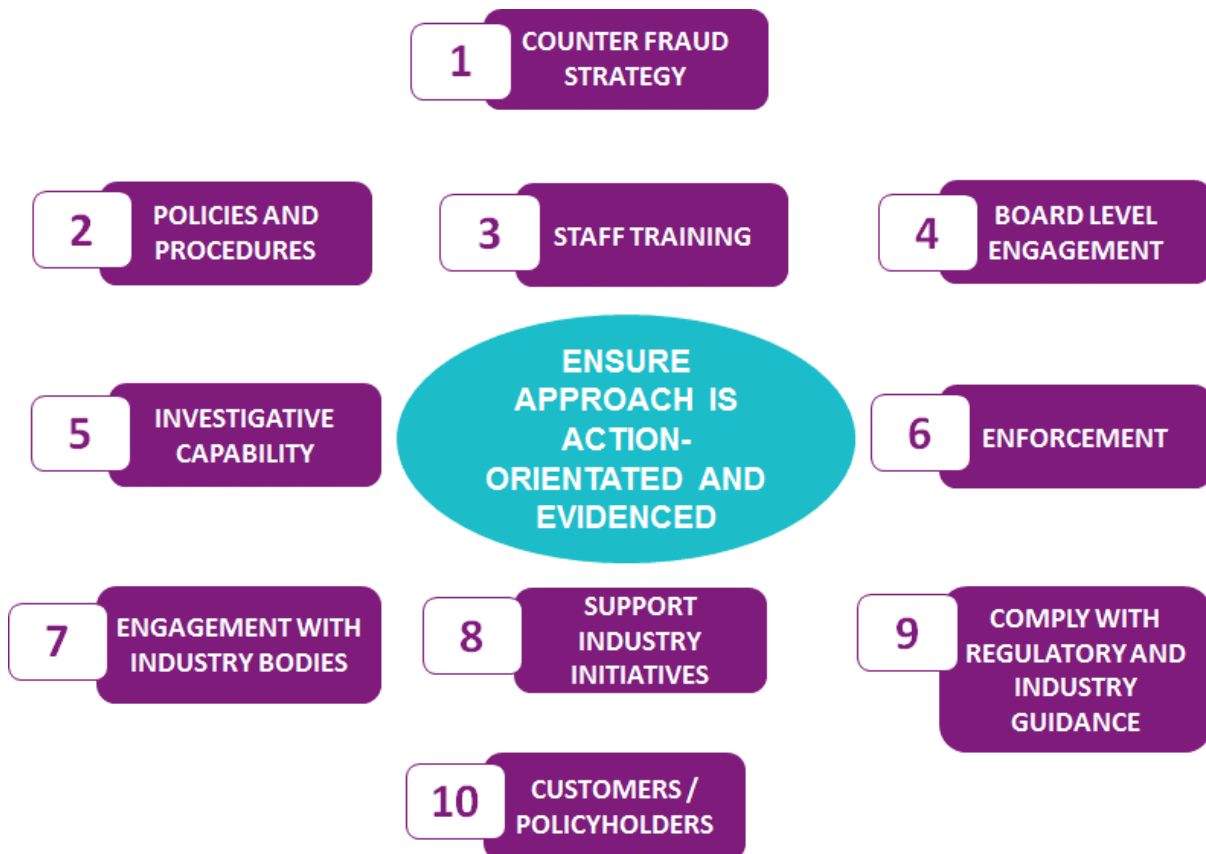


## Effective Counter Fraud Practices – Checklist for insurers and partners

### Introduction

All insurers must protect themselves and their customers against fraud. This checklist is designed to assist insurers, particularly smaller insurers with a limited counter fraud function, and their corporate partners, in putting in place strong fraud defences. It also sets out how firms can contribute to the UK insurance sector’s counter fraud strategy, to ensure that the UK remains an attractive place to do business.

The ABI recognises that each insurer will have its own commercial strategy and risk appetite, and many will have well-established fraud controls. However, unless all insurers and their partners pull in the same direction, fraud will simply shift around the market and prevail. Moreover, it is incumbent upon the industry to ensure that it meets regulatory expectations: financial crime is now one of the FCA’s top seven risks, and the FCA has continued supervisory visits to small firms that may be exposed to a high risk of financial crime. Having documentary evidence that risk assessments have taken place (and action taken as a result) will assist commercial decisions and help firms articulate their methods to the regulator.



# 1

## COUNTER FRAUD STRATEGY

*Define scope, establish risk appetite, set targets*

- Strategy can be fraud-specific or integrated into a wider financial crime strategy (addressing AML, bribery & corruption, sanctions, risks etc) and should span the product lifecycle
- Outline risk appetites against product lines and distribution channels, using the ABI fraud definition
- Set prevented losses expectations
- Include documented processes to support strategy (see section 2 below)

# 2

## POLICIES AND PROCEDURES

*Establish internal policies and procedures (non-negotiable and mandatory) and cascade these throughout the organisation*

- Internal policies and procedures should be documented and reviewed annually
- Conduct assurance reviews across business/regions of key risks to identify 'gaps'
  - identify remedial actions to close gaps; or
  - CEO sign-off of risk acceptance
- Effect procedures for reporting of suspected fraud
- Hold regular meetings of fraud management team:
  - identify vulnerable areas of the firm – products; distribution channels
  - produce management information on detected fraud and trends (and develop narratives on any regulatory concerns)
- Use scenario planning to develop a flexible fraud response plan / investigation / escalation procedures (to Risk/Audit Committees – C-suite membership)
- Conduct internal audits to monitor the effectiveness of procedures
- Learn lessons from previous incidents of fraud
- Internal fraud – do enhanced vetting of staff in high-risk areas. Staff to be aware of:
  - need to keep data secure
  - indicators of internal fraud
  - whistleblowing procedures
  - consequences of committing internal fraud
- Training (see section 3 below)

### 3

## STAFF TRAINING

*Train all staff to support the counter fraud strategy*

- Conduct induction and annual refresher training for all staff
- Consider module-based training covering fraud, AML, bribery and corruption, sanctions etc
- Consider online testing
- Appoint 'fraud champions' to act as advocates to emphasise importance of counter fraud work and spread awareness and good practice throughout organisation
- Ensure partners familiar with insurer approach, and conduct due diligence on their processes

### 4

## BOARD LEVEL ENGAGEMENT

*In light of regulatory expectations – with FCA identifying financial crime as one of seven key risks to its objectives – establishing good counter fraud governance is vital, with the fraud strategy being set from the top down*

- Assigning board level ownership of the fraud risk:
  - ensures overall responsibility vests in senior decision makers
  - positions firms to better manage potential conflict (between competing departments e.g. incentives to increase sales may conflict with counter fraud strategy)
  - establishes a culture and strategy for tackling fraud
- Escalation of fraud risks should be to board level committees (e.g. Risk; Audit)
- Alerting shareholders/investors to the cost of fraud may discourage short term approaches to fraud and encourage support for investment in fraud prevention measures
- Should demonstrate active engagement with the board

## 5

### INVESTIGATIVE CAPABILITY

#### *In-house capability and outsourced solutions*

- Each insurer should ensure that it has in-house capability proportionate to risk appetite:
  - analysts, intelligence, policy and claims validation teams etc
- Many insurers also subscribe to commercial analytics solutions which can be tailored to an insurer's bespoke needs, and adopt risk management tools, such as 'red flag' indicators, studies of behavioural traits and other fraud risk identification desk-top aids
- Only appoint private investigators that operate within the parameters of the law and to high ethical standards. Only use private investigators in appropriate circumstances (see section 9 below for further guidance)

## 6

### ENFORCEMENT

#### *Consider referring cases to enforcement and bringing legal actions*

- Refer appropriate cases to the [Insurance Fraud Enforcement Department \(IFED\)](#) – a bespoke police unit within the City of London Police dealing wholly with insurance fraud and to regional forces. IFED has published a referral guide to clearly explain the referral process.
- Consider bringing legal actions in appropriate cases – including private prosecutions, 'fundamental dishonesty' actions and civil actions to recover the illicit proceeds of crime.
- Refer cases of claimant solicitor malpractice to the IFB who will liaise with the [Solicitors Regulation Authority](#)
- Refer cases of malpractice by claims management companies to the [Claims Management Regulator](#) [note: regulatory responsibility due to transfer to FCA - 2018]
- Report [Suspicious Activity Reports](#) (SARs) under the Proceeds of Crime Act 2002

## 7

### ENGAGEMENT WITH INDUSTRY BODIES

*Support core industry counter fraud initiatives*

- [Insurance Fraud Bureau](#) – spearheads insurance industry fight against organised fraud
- [Insurance Fraud Register](#) - database of proven fraudsters across all product lines that can be accessed at all stages of the product lifecycle.
- [IFED](#) – specialist police unit enforcing against cases of suspected insurance fraud
- [MyLicence](#) – an insurance industry initiative that provides access to DVLA data.

## 8

### SUPPORT INDUSTRY INITIATIVES

*Support industry work to identify scale of fraud and patterns and trends*

- Participate in the ABI annual detected fraud statistics collection exercise
- Contribute to the industry annual threat assessment compiled by the IFB [*note: the FCA is introducing an [Annual Financial Crime Return](#), which could increasingly focus upon fraud risk in the future*]. Ensure controls adapt to new fraud threats.
- Measure and track the benefit derived from participating in industry initiatives

## 9

### COMPLY WITH REGULATORY AND INDUSTRY GUIDANCE

*Ensure all staff are familiar with – and comply with – both regulatory rules and guidance*

- Be familiar with FCA financial crime regulatory requirements [PRIN / SYSC / ICOBs – including outsourcing arrangements e.g. SYSC 13.9.4G] and [FCA's Financial Crime Guide](#) [see Part 1, Ch 4: 'Fraud' – Box 4.1. Guide also covers money laundering, sanctions etc]
- FCA guidance on [Senior Insurance Managers Regime](#) (SIMR)
- Cross-sector [Application Fraud Good Practice Guidance](#) – summarises known good practices to combat application fraud
- [ABI Guidance on Instruction and Use of Private Investigations](#) – provides a framework designed to ensure insurers and their agents appoint only PIs who operate within the confines of the law and to high ethical standards
- [ABI Guidance on Enforced Subject Access](#) - disclosure of criminal convictions
- [CII S.29 DPA Best Practice Guidelines](#) – for sharing of information for purpose of detecting and preventing fraud (administered by IFB)
- IFED referral Guide (see section 6 above)

## 10

### CUSTOMERS / POLICYHOLDERS

*It is important insurers take measures to protect honest customers from insurance fraud. Insurers should actively educate customers/policyholders*

- Insurers use a number of channels to clearly explain to customers the serious consequences of committing insurance fraud. Providing clear information about what insurance fraud is and the consequences of committing it helps to deter potential fraudsters
- Encourage customers to report instances of insurance fraud to [IFB Cheatline](#)
- Consider introducing customer incentives for good behaviour (e.g. no claims discounts)
- Fraud policies should be proportionate and not cause adverse outcomes for honest customers