

# Insurance Fraud in Local Authorities Roundtable Summary Paper



## Introduction

Zurich Municipal and the CIPFA Counter Fraud Centre recently hosted a Roundtable discussion on the topic of insurance fraud in Local Authorities. Delegates included counter fraud, risk and insurance practitioners from Local Authorities across the country. The roundtable discussed a range of topics including:

- The types of insurance fraud risks currently impacting Local Authorities
- The current arrangements within Local Authorities in investigating, detecting and mitigating these risks
- The results of the Insurance Fraud Taskforce and industry developments

This paper acts to document the key high level messages stemming from the discussion and provide additional commentary on the current fraud risk.

There was a clear consensus by attendees that, although individual authorities had strong awareness of fraud, there is an opportunity for Local Authorities to work more closely and drive a coordinated counter fraud strategy. The sharing of best practice, regular communication and the implementation of consistent processes are opportunities which could deliver better results.

We would like to thank the contributors of the Roundtable discussion.

## Types of insurance fraud risks impacting on Local Authorities

Insurance fraud includes any insurance claim that is proved to be false, made against your organisation or your organisation's insurers. The latest CIPFA Counter Fraud and Corruption Tracker, reports that nationally, the estimated number of detected insurance fraud was 237. The estimated average value was £4,732 per case. Moreover, eight cases involved employees but none involved Councillors.

'Crash for cash' in the motor space is now largely considered a managed risk with the Insurance Fraud Bureau (IFB) and wider industry capability having a clear view of the threat, having spent considerable effort in improving detection rates. Although the risk remains, the industry now has some very sophisticated data mining and intelligence capabilities to identify it and disrupt it.

There is, however, clear evidence that those individuals involved in organised motor fraud are now replicating their scams in the casualty arena. 2014 saw the first major casualty fraud ring identified (slip and trip) with a large industry exposure. The IFB, other fraud agencies and insurers are adapting their strategies and services to address this growing threat. Fraud rings in casualty range from family based scams to maximise pothole claims to larger scale accident management driven attempts to systematically defraud the municipal and commercial sector via the creation of fictitious slip and trip claims. There is also some evidence of organised crime infiltrating the workplace to stage accidents.

Aggressive claims farming of historic and largely spurious whiplash and industrial disease claims continues to be a major issue which the industry and the government have spent considerable energy in combatting. This is probably the source of the majority of third party fraud. Farming of casualty work has been more appealing to the claimant industry recently given the extension of the Ministry of Justice (MOJ) process into low value Casualty claims.

Claimant solicitors can play an instrumental role in enabling fraud. Although it is a minority of solicitors who are involved in driving and supporting organised fraud and serious criminality, a proportion of solicitors are actively involved in aggressive claims farming and other behaviours which actively drive fraud.

As a result of the Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) and subsequent regulatory changes, the claimant market was forced to change its structure. Smaller firms left the market and larger firms restructured to protect their profit margin. The result is that in 2016 insurers and their customers are challenged by a condensed claimant market where a number of large and

medium sized firms hold considerable influence. Some of these larger firms have responded to the ban on referral fees by buying up the various arms of the accident management business to provide a one-stop shop service for clients. A solicitor may realise economies of scale and efficiency, for example, by also owning and controlling the repair, rehab and credit hire elements of the claim process.

Other methods have been utilised by claimant solicitors in an attempt to bypass the ban on referral fees. Some firms have spent considerable budgets on direct marketing and non-cash incentives to attract clients through other routes. There are concerns that some firms have continued to trade directly in referral fees to receive their work.

As a result of the above, the industry continues to witness high volumes of historic and spurious claims with the trade in claims data and cold calling remaining rife. There has been a continued proliferation of some claimant solicitors pursuing claims even though they hold no formal instruction for their client. Insurers are regularly obtaining statements from claimants directly which categorically state that they have not signed a contract with the solicitor and do not intend on making a claim. In some instances claimant solicitors are going to the lengths of litigating without instruction.

There are various other tactics used by some claimant solicitors which range from sharp practice through to fraudulent behaviour. These include the exaggeration of costs; failure to provide basic client data at CNF stage; refusal to answer insurer calls or correspondence; unreasonable progression to litigation; misdirection of correspondence to cause confusion; attempts to discuss liability ahead of formal submission of claims; and many other behaviours.

The role of medical experts in enabling fraud has been a concern of the insurance industry for some time. It is known that some experts examine large numbers of clients in a short space of time and use 'cut and paste' methods to mass produce reports of extremely poor quality. We also hold concerns with the financial arrangements held between some medical experts/agencies and the instructing claimant solicitor which is at best unhealthy and drive the wrong behaviours. In this regard, the creation of Medco must be viewed as a positive development.

The role of the claims management company has evolved in recent years, with the ban on referral fees with many such firms closing. We believe that much of this industry, however, has survived via movement into non-PI claims activity; restructuring or assimilation by other firms; or indeed by merely going 'underground' to continue to sale of illegal business. Claims management companies continue to play a significant role in claims farming practices.

Although tactics and methods subtly evolve, a number of other established fraud threats remain a constant concern. These include credit hire fraud; opportunistic exaggerated injury and property damage; arranged theft and arson; and invoice fabrication. Outside of the Local Authority space, insurers continue to face a significant challenge from travel and pet insurance frauds.

The geographic hotspots associated with high levels of insurance fraud activity have also shifted over the last few years. Although traditional hotspots are still a concern, we now see evidence of organised fraud in previously quiet regions such as South Wales; the South Coast and some of the Home Counties. Insurance fraud is also growing in Scotland where traditionally fraud rates have been generally low.

### **Local Authority arrangements for investigating, detecting and mitigating fraud risks**

The Roundtable group discussed the key counter-fraud techniques utilised by some Local Authorities when combatting fraud.

These include:

- Checking claims against internal databases to identify if suspects have submitted previous claims or fraudulent claims to insurance and other Council services
- Some limited sharing of data with other Local Authorities and third parties

- Use of social media
- Covert, photographic and video surveillance
- Interrogation of case management systems to be proactive e.g. filtering data through LACHS (Local Authority Claims Handling System)
- Sharing of CCTV evidence.

The group did agree, however, that there was a significant lack of consistency in terms of how Local Authorities were investigating and managing fraud. Only a minority of Local Authorities have adopted advanced approaches and operate a specific insurance fraud strategy. These Authorities have developed insurance fraud indicators and monitor insurance fraud affects other risks e.g. an insurance fraudster may have submitted other fraudulent claims to benefits.

The group agreed that there were two fundamental areas for improvement. Firstly, there is a need to ensure that all Local Authorities manage fraud effectively and develop their own counter fraud policy. Secondly, there is a real opportunity for Local Authorities to collaborate on fraud more effectively and share intelligence and best practice. The current disjoint in approach is an opportunity for the fraudster.

The Roundtable Group discussed their appetite to improve performance and collaborate more effectively. The following key recommendations were discussed:

- All Local Authorities should assess their own appetite to resource and enforce a counter fraud policy. Additionally, fraud should be on the agenda at appropriate meetings, especially where multiple Authorities are present
- Local Authorities should consider strengthening their policies surrounding the governance of investigative tools. I.e. Surveillance and social media investigation. This will ensure best results and greater compliance controls
- Opportunities for better sharing of intelligence and investigative collaboration should be sought by Local Authorities. Internally, each Authority should consider how they can collaborate more effectively with other teams to deliver cross-department results (eg. Insurance and benefits fraud).
- Local Authorities should look to improve internal awareness of insurance Fraud. Authorities could identify red flags and create a consistent set to improve fraud detection. Additionally, internal presentations or awareness training could be provided to relevant teams (such as Highways)

## **Results of the Insurance Fraud Taskforce and industry developments**

There has been very significant action taken by the Insurance Industry over the past few years to directly tackle established and developing fraud risks. The following are some of the key strategies.

- The development of the Insurance Fraud Bureau strategy. The IFB have recently revised their core strategy to both reinforce their role as the industry's central intelligence hub and expand their core services into casualty and property claims fraud.  
<https://www.insurancefraudbureau.org/>
- The Insurance Fraud Register (IFR) is hosted by the IFB and is a new register of all proven frauds. It is a key tool in driving stronger detection rates and deterring the public from committing fraud.

<http://www.theifr.org.uk/en/>

- The Insurance Fraud Enforcement Department (IFED) continue to develop their expertise and are the Insurance Industry's dedicated Police force funded by the ABI. This force is a vital component of the industry's deterrence strategy with regular arrests, cautions and custodial sentences being achieved across a range of fraud offences.  
<https://www.cityoflondon.police.uk/advice-and-support/fraud-and-economic-crime/ifed/Pages/default.aspx>
- The publication of the Insurance Fraud Taskforce report highlighted the ongoing efforts by the Insurance Industry, working with the Government and other stakeholders to combat fraud more effectively. It was noted that there was no representation from the Department for Communities and Local Government at the Insurance Fraud Taskforce. The Taskforce made a number of recommendations which will likely now be pursued. Access the report here: <https://www.gov.uk/government/publications/insurance-fraud-taskforce-final-report>

## Conclusion

This paper explored the current insurance fraud risk and how this risk impacts the businesses of Local Authorities. Numerous risks were identified which could be damaging to both the finances and reputation of a Local Authority. The management of the insurance fraud risks is where the challenge lies. Clearly, there are significant opportunities to do more and it is hoped that this high level summary may help drive further discussion and activity in this area.

To discuss Insurance Fraud in more detail please contact your Risk and Insurance Consultant, call us on 0800 232 1901 or email [info@zurichmunicipal.com](mailto:info@zurichmunicipal.com)

### Zurich Municipal

Zurich Municipal is a trading name of Zurich Insurance plc, a public limited company incorporated in Ireland. Registration No. 13460. Registered Office: Zurich House, Ballsbridge Park, Dublin 4, Ireland. UK Branch registered in England and Wales, Registration No. BR7985. UK Branch Head Office: The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire PO15 7JZ. Authorised by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. These details can be checked on the FCA's Financial Services Register via their website [fca.org.uk](http://fca.org.uk) or by contacting them on 0800 111 6768. Our FCA Firm Reference Number is 203093.