



A Study on Customers' Perception and Tolerance Level With Regard to Life Insurance Fraud

KEYWORDS

Fraud risk, Pragmatists, Perpetrator

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ABSTRACT *Fraud risk in insurance is a complex matter, which affects both the parties — insurers as well as policyholders. Both qualitative and quantitative research was used to understand how public attitudes about fraud are formed and what factors influence them. Among the areas explored in the survey include opinions about life insurance fraud and insurance providers. This study also focuses on the moral obligation of the respondents to report fraud and share their experiences of life insurance fraud. It also highlights various reasons which compel people to commit life insurance fraud. A detailed survey of 500 customers was done.*

1 INTRODUCTION

India is one of the fastest growing economies and so is the case with the country's insurance sector. We have conducted the Insurance Fraud Survey to assess the fraud scenario, the potential risk exposure and the industry practices to counter fraud risk. The significant role that fraud plays negatively affects the insurance sector is often under-reported or discounted. There is a general consensus in the market that fraud cases have been significantly increasing. Claims/Surrender related fraud is the biggest concern for insurance companies, and the majority of respondents feel that more anti-fraud regulations are the need of the hour. Frauds increase the cost of insurance, resulting in insurers losing to their competitors, and at the same time, the policyholders end up paying higher premiums.

As India's insurance industry matures, fraud risk management is going to be a major concern for insurers and business leaders. Insurers will need to continuously reassess their processes and policies to manage and mitigate the risk of fraud. Life insurance fraud happens. Unfortunately these days, it is happening on a large scale. Life Insurance fraud is one of the most serious problems facing insurers, insurance consumers and regulators. Its existence not only increases the cost of insurance, but also threatens the financial strength of insurers and negatively affects the availability of insurance. Insurance fraud encompasses a wide range of illicit practices and illegal acts involving intentional deception or misrepresentation. Organizations are realizing that frauds are driving up the overall costs of insurers and premiums for policyholders, which may threaten their viability and also have a bearing on their profitability. Hence, companies need a more vigorous fraud management framework.

2 LITERATURE REVIEW

Colquit, L. L., & Hoytt, R. E. (1997) evaluated the reasons given by insurers for resisting fraudulent claims. Results of the study suggest that claims fraud is higher for insurers writing credit life and those with higher lapse ratios. Also larger insurers and insurers that spend more on the investigation, settlement of claims, medical exam and inspection fees were considered to be better fraud detectors.

Holmes et.al. (1999) concluded that insurance industry was more careful than other industries with regard to inter-

nal control systems in order to reduce the effect of fraud. Auditors of insurance industry could detect only customer fraud and not even a single case of insurer fraud was detected by them. Insurer fraud was detected either through suspicion or through internal or outside complaint.

Coalition against insurance fraud. (1997) conducted a study which was designed on understanding the customer's perception on unethical behavior and suggested various measures to curtail insurance fraud such as-proper scrutiny of applications, proper investigation of claims and rejecting false claims or application.

Tennyson, S. (2002) examined whether consumers' level of experience with insurance was related to their attitudes toward insurance fraud. Such a relationship could arise because inexperienced consumers may have misperceptions about insurance contracts and institutional rules, which could result in accepting attitudes towards actions that are in fact fraudulent. Survey data shows that respondents who owned more types of insurance and those who had recent insurance claiming experience were less likely to find insurance fraud to be acceptable.

Frolik, L. A. (2001, June) conferred some of the universal problems associated with aging—such as losses in vision, hearing, and short-term memory—make an affected older person easier to mislead to take a life insurance policy that to at very high cost and low sum assured because of the age.

Alonso, C. (2006) throws light on Imposter Fraud and Incontestability Clauses in Life insurance Policies and it also discuss about the Imposter Exception to Incontestability Clauses.

IAIS. (2006) elucidates concepts like fraud risk in insurance, internal fraud, policyholder and claims fraud and intermediary frauds

Anonymous. (2006) discussed about campaigning anti fraud activities which not only help to reduce fraud through publicity but also reduces the cost of insurance fraud.

Bland, D. E. (1999) clarifies that Insurers can only continue in business if their customers trust in their good faith. The

risks that insurers run are essentially those which challenge the management of the business in good faith. The risks are in the area of moral hazard — dishonesty among insurance buyers and sellers — rather than in the areas of higher mathematics or the legal complexities that follow from naive drafting of policy terms and conditions.

3 OBJECTIVES

Major objectives of the study are listed below:

- 1) To know customer’s perception with regard to life insurance fraud.
- 2) To measure customer’s tolerance level for life insurance fraud. Four groups are considered i.e. Pragmatists, Traditionalists, Moralists and Columnists. Which groups of people are highest?
- 3) To rate the overall experience towards life insurance. Whether the same is negative, positive or neutral.
- 4) To understand major reasons which compel people to commit insurance fraud?

4 THE STUDY

Customer survey is conducted to know their perception with regard to life insurance fraud.

4.1 Methodology

Direct survey as well as online Survey is conducted for the same using the website esurveyspro.com.

4.1.1 Tools for data collection: The secondary data was collected from various online database, journals and books available in the library. Primary data was collected through survey by administering questionnaire.

4.1.2 Sampling: Method of sampling used was convenience. Total 500 respondents were selected and mostly walk in customers in the insurance companies and banks were taken.

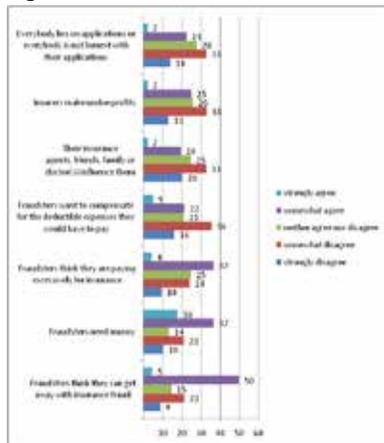
4.1.3 Sampling profile: The frequency distribution displays 45% female and 55% male respondents.

4.1.4 Limitations: The study was conducted in Ahmedabad city only.

5 DISCUSSION AND ANALYSIS

5.1 Reasons for life insurance fraud:-

Figure 1 Reasons for life insurance fraud



Respondents were asked to rate on likert scale of 1 to 5 that to what degree they agree for the reasons which compel people to commit life insurance fraud. It is clearly evident from the above figure that the last three reasons i.e fraudsters think they are paying excessively for insurance, they need money, and that they think they can get away with insurance fraud are most preferred rather agreed.

The respondents have shown a higher amount of disagreement for the first four reasons. First four reasons are ranging from 40 to 50% of disagreement. So we can conclude that last three are the major reasons which would compel one to commit life insurance fraud. The last reason i.e. fraudsters think they can get away with life insurance fraud is a serious point to be taken into consideration. It indicates that there are loopholes in the fraud detection technique of life insurance. That is why the fraudsters think that they can easily get away with life insurance fraud.

5.2 Four Expressions : Tolerance level of customers for life insurance fraud

All the respondents were grouped into one of the sub-groups depending on their levels of tolerance and certain perceptions of why people commit insurance fraud. For the purposes of this study, the subgroups are identified as Pragmatists, Traditionalist, Moralists and Columnist.

The Pragmatists have a low tolerance for insurance fraud but realize it occurs. They may feel some behaviors are justified depending on the circumstances; they don t advocate strong punishment. This group represents 16 percent of the survey s respondents.

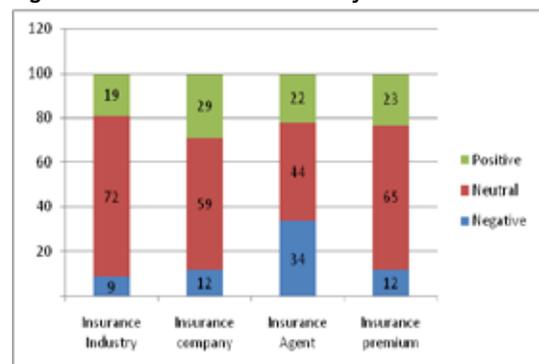
The Traditionalists are fairly tolerant of insurance fraud, largely because they believe many people do it, making it more acceptable. For that reason, they tend to believe in more moderate forms of punishment. This group makes up 27 percent of the survey s respondents.

The Moralists have the least tolerance of insurance fraud. They believe there s no excuse for this behavior and are the most willing to punish perpetrators severely. This is the largest group of respondents 47 percent of the surveyed population.

The Columnists have the highest tolerance for fraud and tend to blame the insurance industry for people s behaviors because they believe insurers don t conduct business fairly. They want little or no punishment for perpetrators. This group represents 10 percent of the survey s respondents.

5.3 Attitudes towards Industry

Figure 2 Attitude towards Industry



Respondents were asked to rate the insurance industry in general, as well as their own insurer, agent and premium from positive to negative.

- Insurance Industry and company: Nearly three-quarters of respondents 59% rate their company on neutral basis, 29% are very positive and 12 % of the respondents have negative attitude towards insurance company. 72 % are neutral about the industry, 19% are positive and 9 % are negative.
- Insurance Agent: On the other hand, 34% of the respondents rates the insurance agent as negative and only 22 % are positive whereas 44 % have neutral attitude.
- Insurance premium: With regard to the insurance premiums only 12% of the respondents have negative attitude whereas 65% have rated on neutral basis. However 23% are having positive attitude.

5.4 Personal experience with life insurance fraud

The respondents were asked whether they know anyone who has committed life insurance fraud. It was observed that there were 8 % of the respondents who knew someone who had committed life insurance fraud and rest of the respondents i.e, around 92 % of the respondents did not know anyone who had committed life insurance fraud. It was found that out of 38 who knew somebody who had committed life insurance fraud only 16 have been reported

6 Findings:

Some of the findings revealed through the survey are:

- Respondents were asked to rate on a likert scale the possible reasons for a perpetrator to commit life insurance fraud. The respondents have shown a higher amount of disagreement for the first four reasons. First four reasons are ranging from 40 to 50% of disagreement. Therefore we can conclude that the major reasons as per customer's perception for life insurance fraud are paying excessively for premiums, perpetrators need money and fraudsters think they can get away with fraud. The last reason i.e. fraudsters think they can get away with life insurance fraud is a serious point to be taken into consideration. It indicates that there are loopholes in the fraud detection technique of life insurance. That is why the fraudsters think that they can easily get away with life insurance fraud.
- All the respondents were grouped into one of the subgroups depending on their levels of tolerance and certain perceptions of why people commit insurance fraud. For the purposes of this study, the subgroups are identified as Pragmatists, Traditionalist, Moralists and Columnist. Highest percentage of customers fall into the group of moralists who have the least tolerance of insurance fraud. They believe there is no excuse for this behavior and are the most willing to punish perpetrators severely. This is the

largest group of respondents 47 percent of the surveyed population. Hence we can conclude that majority of the respondents believe in punishment for fraud. There is a small group of low tolerance for life insurance fraud i.e 16 % who don't believe in strong punishment

- Respondents were asked to rate the insurance industry in general, insurer, agent and premium from positive to negative. Nearly three-quarters of respondents 59% rate their company on neutral basis, 29% are very positive and 12 % of the respondents have negative attitude towards insurance company. 72 % are neutral about the industry, 19% are positive and 9 % are negative. On the other hand, 34% of the respondents rates the insurance agent as negative and only 22 % are positive whereas 44 % have neutral attitude. With regard to the insurance premiums only 12% of the respondents have negative attitude whereas 65% have rated on neutral basis. However 23% are having positive attitude.

- It was found that out of 38 who knew somebody who had committed life insurance fraud only 16 have been reported.

7 Conclusion and Recommendations:

It is evident from the study that major group of respondents comprises of moralists who are least tolerant against life insurance fraud. This clearly indicates that this segment of customers is highly concerned for life insurance fraud and they are ready to punish the fraudsters. Majority of the customers also perceive that the major reason for committing life insurance fraud is that fraudsters think they can get away with life insurance fraud. This indicates the lack of a comprehensive and integrated approach to fraud risk management. Vigilant and cost-effective verification of applications targeting material misrepresentations should be a standard practice by all insurance companies. This practice also should be communicated to applicants to drive out any possible impression that insurers do not check applications thoroughly. Fraud risk poses a very big challenge for the insurance sector. The increasing number of frauds and the growing degree of risk necessitates that insurance companies regularly review their policies, build in checks and use new and advanced technology to avoid such issues. However, no system can be foolproof, but a proactive and dynamic approach can make a company ready to counter fraudsters and gain an edge over its competitors. Despite these difficulties, we would recommend that the insurance industry develop and fund an intensive, ongoing public information campaign to educate the public about insurance fraud. This campaign should include messages addressing consumers concerns about who pays the ultimate costs of insurance fraud. The insurance industry should also explore the feasibility of a reward system to encourage the reporting of fraud.

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