The Psychology of Insurance Fraud

by

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Learning objectives

By the end of the webinar, participants will be able to:

- identify the research from the field of psychology relating to insurance fraud.
- explain what psychological factors are at play when someone commits insurance fraud.
- implement a strategy for including psychological considerations in the fight against insurance fraud.

Insurers are fair game, right?

- So it would seem people think!
- An ABI study shows that 20% of policyholders would consider making an exaggerated or entirely made up claim.
- A study by Lexis Nexis revealed a quarter of people would lie to obtain a lower insurance premium.

Framing statistics

Applied psychology in insurance & financial services

- Many companies, and indeed the FCA, have put applied psychology/behavioural science at the centre of their business strategies.
- The nudge theory is the typical example of priming (Netflix).
- Behavioural science and applied psychology have a crucial role to play. But why only in marketing?

- Why is there more focus on policing than prevention?
- Compare cost of prevention to policing.
- Donald Cressey´s work is 70 years old!
- We will look at some theories and apply practical solutions.

Why do people commit fraud?

The Fraud Triangle

Rationalisation: it is okay to commit insurance fraud
- There is no other way to turn.
- It is harmless.

Motive/Pressure: economic/financial hardship
- Think of business sectors like hospitality etc.
- Sense of entitlement/desires.

Opportunity: an unchecked ability
- Exaggeration of genuine claims.
- Question framing.

When all 3 combine, fraud becomes **necessary** or **acceptable!**

Customer expectations and rationalisation

- Customer expectations essentially fall into 5 key categories:
  - **Explicit** expectations: What are they looking for? What are they "hiring" your product or service to do?
  - **Implicit** expectations: what they expect from previous experience.
  - **Interpersonal** expectations: customer service.
  - **Digital** expectations: self-service.
  - **Dynamic** performance expectations: how products and services develop and adapt to market conditions.

Research findings

- There has been some fascinating research brought together by John Hopkins University:
  - Negative perceptions and lack of trust increases likelihood of fraud. Including negative engagement with an insurance company.
  - Procedural unfairness and distributional unfairness increases the likelihood of fraud.

- The perception that fraud is commonplace leads to views that the social cost of engaging in fraud is low.
- Fraud is perceived as more acceptable when it is seen as reimbursement for previous expenses (premium and deductible).

We need to:

- Reduce perceived prevalence and acceptability.
- Improve the image of the industry and individual company.
- Enhance relationships with individual customers.

- The research showed that general insurance education improves knowledge and creates positive attitudes, which leads to a decrease in fraud.
- We need to think how we present data to the public about fraud.
- What percentage of policyholders are not fraudulent?
- Are we maybe guilty of normalising fraud? Reverse psychology?

Evidence instruction & timing

- Traditionally, we rely on evidence of loss as the main deterrent. Photographs/videos etc.
- Research by University of Portsmouth finds that this is not an effective deterrent.
- Stimulating self-awareness with honesty statements is far more effective.
- By the time a statement of truth is signed at the end, the deed has been committed!
- Lies tend to be made later in the process, after trust has been gained.

Lemonade

- They have a Chief Behavioural Officer – Professor Dan Ariely.
- Lemonade dissuades dishonesty to improve the underlying relationship.
- Honesty pledge + video explanation + 18 anti-fraud algorithms = payments in seconds.
- Is the problem with the designers of the systems rather than the people making the claims?

The rejected claim

- A study from Cambridge University reveals that after a claim has been rejected, the chances of fraudulent activity increases significantly.
- Being upfront reduces the risk.
- The risk is also reduced when people feel their claim was rejected on objective grounds.
- *Versloot Dredging v HDI Gerling*

The principle of co-creation

- A study from University of North Dakota raises the prospect that insurance fraud is a moral hazard due to the nature of the contractual relationship.
- The principle of insurance relies on both parties to behave diligently and in good faith at any point in the exchange of information.
- Saying premiums are going up because of fraud could lead to a perception that the cost of fraud is built into the premium.
- We need to reframe the role of insurance. Ecosystems.
- There is a link between expectations in marketing and performance of the contract when a claim is made.

Some psychological red flags

- If someone shows a pattern of the following behaviour, be aware:
  - Negative opinions about insurance and your company.
  - Talking about the costs they have paid in premium and deductible.
  - Referencing distributive fairness.
- Start to include psychological indicators in your risk assessments.

What can we do?

- Trigger internal honesty monitors:
  - Add memory prompts.
  - Use language that normalises.
  - Seek double-confirmation.
- Add moral cues at key stages. What about video submissions?
- Shift towards prevention rather than policing.

Summary

- There are significant psychological factors that come in to play in insurance fraud.
- We need to evaluate our red flag assessments.
- We need to move towards prevention and not just policing.
- We need a more holistic approach to the fight against insurance fraud. Focus on trust and the underlying relationship.