



## The Fraud Risk

COVID-19 is presenting many challenges for all in the insurance industry and this includes opportunist and organised fraud. Though claim volumes may decrease overall, fraudulent claims will undoubtedly increase and we are already seeing unusual spikes of certain claims, suggesting manufactured or staged losses. There are reasons and causes behind this, though some might suggest these are simply excuses for bad behaviour. Whatever your take on this, it is clear that there are huge financial implications for businesses as a result of the pandemic and many are already suffering.

### A Global Problem

Action Fraud, the UK's national fraud reporting service, reports hundreds of thousands of pounds being lost to coronavirus scammers through a variety of schemes including door-to-door scammers offering fake coronavirus tests and fake messages from HMRC offering tax rebates. We have heard reports from Italy, suggesting that the Mafia is poised to exploit vulnerable people during the COVID-19 pandemic.<sup>1</sup> Globally, hackers and cyber scammers are sending fraudulent COVID-19 email and WhatsApp messages, attempting to trick you into clicking on malicious links or opening attachments.

Clearly, we should be under no illusion that there will be just as many scams, threats, attacks and deceptions in the UK insurance arena, with people and groups trying to take advantage.

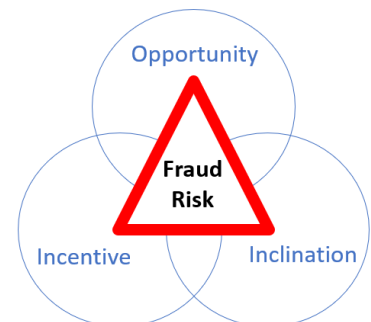
### Why Does It Happen?

The trinity of opportunity, inclination and incentive make up the Fraud Risk Triangle. Of these three, we all have the **opportunity**, as anyone with an insurance policy can commit insurance fraud.

It is then about **inclination** and how we, as individuals, might be able to rationalise committing this crime. Opportunists use phrases like 'cooking the books' or 'creative accounting', trying to make the situation sound more jokey and less criminal, helping them deal with breaking their usually stronger moral code.

Losses from Business Interruption have arisen in many firms as a direct result of COVID-19 but the reality is that for many businesses there is simply no policy cover. McLarens and insurers can explain the reasons why policies do not operate for these claims, but some policyholders may decide they have been let down and will resort to 'other' paths.

The feeling of being 'let down' may well drive the inclination towards fraud, with claimants possibly even fooling themselves that they are being resourceful or resilient and are just finding a way to survive. After the last economic downturn, one third of people surveyed said they would not rule out making a false claim and the level of fraud rose by 17%.<sup>2</sup> There will be huge implications, of course, if they go ahead with a fraudulent claim and are found out. This is something that we often see has not been fully thought through.

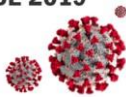


<sup>1</sup> Lockwood, S. (2020) 'Coronavirus: Mafia 'poised to exploit vulnerable people during COVID-19 pandemic'' *Sky News*, 30 April. Available at: <https://news.sky.com/story/coronavirus-mafia-poised-to-exploit-vulnerable-people-during-covid-19-pandemic-11980834> (Accessed 5 June 2020)

<sup>2</sup> Association of British Insurers fraud figures 2009  
Private & Confidential – McLarens UK&I – June 2020

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So, we might have the opportunity and the inclination but, before making that final leap into fraud, some pressure will be required. It is this pressure which forms the **incentive**, which completes the Fraud Risk Triangle. This, of course, has its basis in greed and need. Greed remains constant for some, though need will vary, dependant on circumstances. Consider pressure from above or from a partner, a desire to help the business succeed, or to prevent a business from failing.

When livelihoods are at stake, people will become desperate. We know that many businesses are suffering lost revenues right now and some will unfortunately go to the wall. Desperation will drive some to do the wrong thing.

### What Can We Expect?

After the financial downturn of 2008/09, the number of false claims rose by some 17-20%, with the value of those claims soaring by 30%, or £180 million.<sup>3</sup>

We anticipate a substantial increase in false claims being intimidated, exacerbated by the uninsured losses that are being sustained. With claimants being told no cover exists for the business closures and loss of profits resulting from COVID-19, they will potentially look to recoup these losses by staging new losses, manufacturing claims that appear to arise from insured perils and/or by inflating any existing claims.

There will, of course, be many genuine reasons why costs on existing claims might increase:

- Unavailability of labour or materials;
- Additional hire charges, due to extended repair periods;
- Liquidated damages for time extensions, as per contract terms;
- Global transport issues;
- Long lead-in times for replacement goods;
- Additional loss of rent or temporary accommodation claims, due to extended repair periods.

The danger is that some will use these grounds as a pretext to unjustly inflate their claims. Loss adjusters and insurers must carefully consider increased sums, ensuring evidence of these extra costs is forthcoming for validation. Concerns arising from amendments or increases to existing claims should be investigated proportionately, if necessary.

*“We are already seeing an increase in commercial fire damage.”*

In terms of staged claims, it is a little early to give actual examples and we must not overreact as an industry, but we are already seeing an increase in commercial fire damage and specifically arson claims. Losses from arson have very much declined over the last 20 years, so a spike of such claims in the last three months suggests a concern worthy of further investigation. Recouping uninsured losses will drive claimants to 'get creative' with, for instance, accidental damage claims. Water damage claims, allegedly arising whilst properties or businesses are unoccupied, are likely and theft claims are also anticipated to increase.

### What Can We Do?

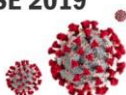
Look for any evidence of preparation, suggesting that claims have been 'arranged.' That is, when a fire is accidental, or when any form of damage arises accidentally, a scene can look very different from one that has been manufactured or staged deliberately. In staged claims, the scene will be set.

<sup>3</sup> Bachelor, L. (2009) 'Fraudulent insurance claims hit record high' *The Guardian*, 6 April. Available at:

<https://www.theguardian.com/money/2009/apr/16/insurance-fraudulent-claims>

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It is relatively difficult to start a fire and make it look accidental - some form of ignition and accelerant will have to be used in most cases, leaving evidence behind and raising questions. Specially loved items tend to be moved out of harm's way before a staged fire occurs, so it is always a good idea to check every room, even if unaffected by the claimed fire, as well as looking in garages and sheds, to see whether goods have been moved and stored, prior to setting a fire in the area of damage.

Whether visiting site, doing telephone interviews or using video-streaming technology, we must ensure we are seeing and being shown all relevant areas of loss and damage. Continue to be vigilant and use Risk Checklists for all potential concerns around the claim. Refer identified concerns to a fraud specialist and, where appropriate, undertake background research into policyholders and associated businesses, to identify any other areas of concern and to ensure that further investigation is intelligence-led and can be directed accordingly.

## Conclusion

Regardless of the many possible excuses arising as a result of COVID-19, fraud remains a criminal offence and does not become permissible when a person or business falls on hard times. Claims must be handled in accordance with applicable policy covers, with independent loss adjusters providing completely fair claim settlements, staying true to the policy wordings in force.

From an investigator's perspective, claim enquiries always work best when all parties work together, insurers, brokers, MGAs and loss adjusters, to honour responsibilities under the policy contract, supporting the policyholders and genuine claimants, and of course, ensuring early settlement of genuine claims.

Understanding why claimants may act in an unusual and irrational manner prepares us for fraudulent activity, so we can act and investigate accordingly. We need to be intelligence-led, utilising available facts and data, as opposed to suspicion, only investigating proportionately and working collectively together.

By good communication throughout the claim investigation process, our proportionate enquiries and successful investigations will help to ensure the integrity and the reputation of the insurance industry.

## McLarens' Approach

McLarens UK and Ireland have established a specialist COVID-19 Complex Technical Team of senior adjusters and accountants to lead the claims arising from the Pandemic, providing technical guidance and ensuring consistency in approach. The Team comprises:

William Wilson	Head of Major Loss – Ireland	<a href="mailto:william.wilson@mclarens.com">william.wilson@mclarens.com</a>
Darren Anderton	Head of Major Loss – North	<a href="mailto:darren.anderton@mclarens.com">darren.anderton@mclarens.com</a>
Patrick Cleary	Technical Adviser – Major Loss	<a href="mailto:patrick.cleary@mclarens.com">patrick.cleary@mclarens.com</a>
Kevin Cooper	Executive Adjuster/Chartered Accountant	<a href="mailto:kevin.cooper@mclarens.com">kevin.cooper@mclarens.com</a>
Sharon Green	Executive Adjuster/Chartered Accountant	<a href="mailto:sharon.green@mclarens.com">sharon.green@mclarens.com</a>
David Fillingham	Technical Manager – UK Casualty	<a href="mailto:david.fillingham@mclarens.com">david.fillingham@mclarens.com</a>
Mark Simmons	Head of Construction & Engineering	<a href="mailto:mark.simmons@mclarens.com">mark.simmons@mclarens.com</a>

All new losses to McLarens should continue to be instructed through the normal channels.

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