

MOTOR INSURANCE FRAUDULENT CLAIMS: AN OVERVIEW RECONNAISSANCE

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ABSTRACT

The market share of 45.6 percent represents motor insurance and takaful as one of the most significant insurance coverages mandated under the Road Transport Act 1987 for all vehicles using Malaysian public roads. The rise in cars has increased car injuries, led to higher motor insurance claims, and led to widespread fraud in auto insurance claims. The Insurance and Takaful industry has incurred an approximate loss of RM760 million from motor insurance claims fraud in 2016, which caused insurance premiums to rise each year. This paper reviews the scenario for further improvement in dealing with the situation whereby the issues of fraudulent claims and management of the problem are the utmost concern of the study.

Keywords: Motor Insurance, Fraud, Claim.

INTRODUCTION

Malaysian vehicle registration data, totaling 28,181,203 units, was tabulated by the Malaysian Automotive Association (MAA) on June 30, 2017. In line with this, with a market share of 45.6 percent, Insurance / Takaful Motor is one of the largest insurance coverages, as Insurance / Takaful Motor is mandatory under the Road Transport Act 1987 for all vehicles using Malaysian public roads. The rise in cars has contributed to increased car injuries, leading to high motor insurance claims, and further instructed to widespread fraud in auto insurance claims. The Insurance and Takaful industry has incurred an approximate loss of RM760 million from motor insurance claims fraud in 2016, which caused insurance premiums to rise each year.

Motor insurance is important to assist the community in providing compensation in the event of an accident involving vehicles. According to Tan Sri Muhammad Ibrahim, the Bank Negara Malaysia Governor, motor insurance claims are particularly fraudulent, with an estimated RM 760 million lost in 2013 by insurers and takaful operators. The consequences of fraud, both negative and positive, are different depending on the person involved in the claim process. Motor insurance business in Malaysia is carried out using the Motor Tariff. This tariff includes general rules, keywords and extension passwords, and rating tables for private cars, commercial vehicles, motorcycles, and the motor trade. One of the objectives of the tariff is to create a playing field where the insurer will run a motor business. Therefore, the rates are also available to the Agency Rules governing the commission payable to intermediaries.

Most people do not believe and are less interested in the insurance industry. The belief that they do not benefit all the time from insurance coverage influences the thinking that they need to make a claim. The thought that a claim benefits insurance participation results in fraudulent claims activity. This situation has led to an increase in the cost of premiums due to insurance fraud. This is detrimental to all parties, including policyholders, as well as insurers. Also, mistrust between insurers and insureds can occur and poison the fair claims process. However, the consequences of these insurance claim fraud are beyond the control of the business or consumer "bottom line." Although considered a non-violent economic crime, insurance fraud can lead to, or be part of, violent activities illegal. Recent Insurance Fraud Prevention Authority (IFPA) statistics on the incidence of fraud in Pennsylvania found that the Incoming complaints of auto insurance crimes ("referrals") from all sources in Pennsylvania were 51 percent of all referrals in 2014. Sixty-three percent of the arrest in 2014 was related to fraudulent motor insurance in applications and claims. Fraud and related activities are becoming common among local students and professionals, industry representatives said.

Fraud in insurance is noted as one of the most significant challenges to the insurance market's financial stability (Swaby, 2011; Yusuf & Babalola, 2009). Due to the Malaysian cultural setup as claim fraud issues are considered sensitive and unmentionable. This fraud can occur during the process of underwriting or giving inaccurate statements in the proposal form filled by the clients. The global insurance industry estimates that 10% of the total claims pay-outs are fraudulent. It is shown that unethical behavior occurs during the claim process. Based on General Road Accidents' data in Malaysia, vehicle crashes increased from 489,606 in 2015 to 521,466 in 2016. The number may lead to growth in motor claim insurance. Therefore, the main objective of this study is to understand the fraudulent motor insurance claims occurrence within the perspective of the industry and the public

OVERVIEW OF MOTOR INSURANCE/TAKAFUL

Motor insurance/takaful is a policy that covers the damages or loss to insured vehicles in the event of insured perils such as accident and theft. Motor vehicle insurance/takaful, also known as automotive insurance, is a contract in which the insurer risks protecting the vehicle's owner.

The General Insurance Association of Malaysia (GIAM) (2018) stated that the largest insurance class is dominated by motor insurance with a market share of 45.6 percent. The second is fire insurance, 19.2 percent, and marine, finally followed by aviation and transit (MAT) at 8.2 percent consecutively. All classes of insurance except for fire and MAT grew during the period under review. Motor insurance has recorded a gross written premium of RM4.2 billion with slower growth of 0.2 percent for the first half of 2018 compared to 2.1 percent growth in the same period last year. Due to the Covid-19 pandemic situation and lockdown, within the period of 2019 and 2020, the motor insurance sector in Malaysia has shown lower claim ratio with a market share of 45.6 percent decreased from 70.1 to 62.5 percent (Joschka Müller, 2021). Out of this figure, the situation becomes hard when RM1 billion a year falls into fraudulent claims (Tan, 2021).

FRAUD

Insurance fraud covers various offenses as there are multiple types of insurance fraudsters. One is considered as having committed fraudulent insurance when a person gives false information to an insurance company to obtain a value that is likely unacceptable if the truth is notified. The public considers insurance to be a safety tool approach to help those who are experiencing financial burdens associated with property loss, accidents, or injuries. Whist for those who intentionally commit insurance fraud has undermined the positive aspects of insurance coverage by taking advantage of the opportunity to lie to receive the money they are not entitled to the policy. Insurance fraud is not an unfamiliar crime. When people dishonestly take money, they cannot obtain insurance companies, hence increasing the essential cost for everyone. This type of fraud occurs when someone gives false information to the insurance company about a claim comprising their private or commercial motor vehicle. It can include giving out incorrect information or providing false documentation to support the claim.

Fraud is also considered as lying and misinterpretation of the real statement. Derrig and Krauss (1994) in Power and Power (2015) suggest that the fraudulent term should be used only for criminal acts. For example, the types of fraud are minor fraud and major fraud. Minor frauds usually emerge from real mischances instead of organized mishaps yet wind up as deceitful. This happens when the sum insured's case expanded to cover the abundance by settling harmed parts by utilizing second-hand parts. The fraud will occur during the substitution of the harmful components with the actual elements. The mishap is post-dated; this implies the far-reaching spread bought after the mischance has taken place.

The major frauds then again are executed by sorting out syndicates that generally include more significant sums, for example, the accompanying like staged (fake) mischances and submission by producing narrative proof or reports to help an invented case (The Malaysian Insurance Institute: Motor Insurance, 2018). Based on information recorded from the Insurance Information Institute, the research hypothesis on insurance fraud in the motor insurance sector is equivalent to at least 10% of insurance claims. Thus, it represents that 10% of the yearly claims submitted consist of fraudulent elements. Based on (Okura 2013), insurance fraud occurs when the insurer cannot decide if the accident or damages happened due to a particular incident or otherwise. In other words, there are issues with the claims since they have a more excellent value of claims and the claim from the resources which do not exist or false documentation. In discussing fraud, the main two categories of the relevant activities are internal fraud and external fraud. These activities involve insider and outsider people in motor claims management.

INTERNAL FRAUDS

Also known as an employee or insider fraud, this fraud is committed by an employee or someone in the company (Bashir, Madhavaiah & Rama Krishna Naik, 2014). This type of fraud is often based on three aspects: pressure or motives, rationality, and opportunity. Stress or motivation can be driven by financial difficulties, addiction, and maintaining a certain standard of living or organized crime involvement. This can motivate or pressure employees to commit fraud. Rationally, workers convince themselves what they are doing is reasonable. For example, they think they are not paid relatively; meanwhile, the company is afforded it.

Common of behavioral act that once there's opportunity to be grabbed, workers will utilise it. Lack of internal controls and processes can cause the chance to commit fraud by accessing the financial system provided when necessary and abuse of power. The internal fraud will usually start with a small amount, and if the first trial is accomplished without any notice, the number may increase. This is based on the reason that experts collect this compost in the insurance agency.

Although stress attributes cannot be easily controlled by top management, however, the reduction in motor insurance claims fraud can be reduced. According to studies, respondents agreed that 70% of the company's policies and procedures contribute to monitoring and evaluating claims. As mentioned by Helmut, (2004), lack of separation of duties and no clear information on company regulations and the impact of non-compliance with employees affected the increase in the occurrence of motor insurance claims fraud. Other than that, there are several other factors such as rapid turnover of employees, continually operating under crisis conditions and lack of an audit trail. Adding to that, an ineffective supervision, lack of transaction authorizations, poor accounting records, lack of physical controls and lack of access to information also contribute.

It is believed that undetected fraud is a form of unreported operational loss hidden from managers' and supervisors' eyes. In other words, the absence of a fraud detection system leads the insurer to an unpredictable increase in aggregate losses. Losses due to fraud are usually concealed operational losses that are accounted for as excess claims. Claim frequency and severity are systematically higher when fraud goes undetected, and so the natural and comfortable response. Although numbers of research has been focusing on the types of fraudsters (Clarke, 1989), the forms of insurance fraud broadly differ and that caused from amateurs and opportunist through a well-planned network making false statements involving sophisticated fraud. (Dodd,1998).

EXTERNAL FRAUDS

External fraud is the risk of financial loss, material or reputation resulting from unforeseen acts of fraud by outsiders' (Irfan Bashir, Madhavaiah & Naik, 2014). The risk of financial loss is affected by consumer behaviors (personal, psychological, social, and cultural) (Wu, 2003; Kotler & Armstrong, 2010), individual factors such as age, gender, employment status, income, education, and lifestyle, and psychological factors like motivation, personality, attitude, and emotion. Meanwhile, social impact is derived from the reference group. The unethical behavior of a person can lead to fraudulent claims that significantly affect the insurance company's performance.

Viewing in this context, adding to the current literature on the study regarding to the relationship between behavior and customer satisfaction, particularly within the motor insurance compound. There is a weakness towards a comprehensive study of behavior and pleasure of buying consumers in motor insurance. Protection extortion can likewise radiate from outer gatherings or partners who straightforwardly identify with the backup plan. This comes as policyholder/customer extortion, or, in other words, against the backup plan in the buy of protection approach or execution of cases by acquiring illegitimate inclusion or installment.

At that point, delegate extortion which is a misrepresentation submitted by protection middle people (free specialist or autonomous protection operator) against the safety net provider or policyholders.

Analyzing consumers' behaviors is crucial for commercial activities (Deaton & Muellbauer, 1980; Solomon, Bamossy, Askegaard, & Hogg, 2006; East, Vanhuele, & Wright, 2008) as it becomes more critical to understand key features of consumer behavior. Thus, the insurance company will notify customers behavior whom to commit fraud because they have a good relationship with the insured. Other people's experiences, opinions are shown to have affected consumers (Christopher & Huarng, 2003). According to Kotler and Armstrong (2007), reference groups mainly affect the belief that many small groups influenced them. The family is an example of them. Exposure of new behaviors or lifestyles are among the many ways reference groups use to influence an individual's attitudes. There is a high shortage of comprehensive studies of consumer buying behavior and pride in motor insurance. The general insurance segment's negative results are fuelled by increased severity of claims, brutal competition, regulation. Also, inflation, increased auto thefts, and improper fraud management contributes substantially to making the bottom lines red for insurers.

CONCLUSION

In summary, this issue of motor insurance fraudulent claims is an issue of concern at present. The parties involved need to enhance further the possibility and ways of overcoming the scene. Government, industry players, and consumers need to succeed in the excellent practice of claims procedures and enforcement. The industry players and the consumer are seen to be parties to concern either to educate the ethics in claims activities or to manage the claims per se. The sum of fraudulent claims reported is large and worried. A measure of eliminating this issue needs to be thought. This reconnaissance of the issues faced by the industry specifically needs to be further observed and empirically researched. The need to have measurement techniques and tools to uphold genuine motor insurance claims in practice is immensely important.

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