2020 Insurer SIU Benchmarking Study

INSURERS FINDING STABILITY IN THEIR ANTI-FRAUD UNITS

COALITION AGAINST INSURANCE FRAUD
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Executive Summary

The Coalition’s biennial anti-fraud benchmarking study gives insurers a data-based tool to gauge how well they are doing compared to the overall market, and to similar competitors. Feedback from participants indicate that the studies have helped either to confirm that insurers are on the right track or that they should adjust their operations to gain better results. But in addition to aiding insurers, the Coalition’s study helps the fraud-fighting community gain a big picture to better understand emerging SIU trends and prepare to effectively combat insurance fraud in the future. Some 40 insurers took part in the study.

Notable trends

Property-casualty insurers seem mostly satisfied with their anti-fraud efforts, making few major changes in their SIU operations since the Coalition’s last study in 2017.

Three recent growth trends continue, however. Insurers are:

- Increasing desk investigators and using fewer field agents.
- Growing their outsourcing of investigators and legal help.
- Focusing more on larger and more-complex cases.

But many other areas of SIU metrics remain the same, or in some cases, are reversing from earlier studies.

Case in point: the percentage of accepted fraud referrals from automated systems increased slowly from 16 percent in 2013 to 22 percent in 2017. But insurers in the most recent study — which included results for the full year of 2019 — reported that only 15 percent of accepted referrals came to SIU via automation.

When many insurers started making their first major investments in anti-fraud technology 10 years ago, it was believed automation would grow into a leading source of case referrals. That may still happen, but appears to be a long way off. Still, most insurers express satisfaction that their technology systems are good investments.
While the percentage of referrals has dropped slightly, the number of referrals overall may be rising. The perceived quality of automated referrals has dropped somewhat. Still, the overall quality of referrals has increased, reveals other Coalition research.¹

The successful advent of desk investigators several years back spurred some observers to predict that traditional field investigators would dwindle. That hasn’t happened. Insurers likely will always need “boots on the ground” to successfully combat fraud. Yet while insurers needed armies of troops in the past, insurers likely will pare them to a battalion or two. More desk investigators could well fill that void.

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Desk vs. Field Investigators

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The percentage of desk investigators likely will keep rising post-pandemic, with fewer investigators venturing into the field to conduct personal interviews with claimants, witnesses and others. The increased use of online video meeting services such as Zoom also is helping investigators grow more comfortable with doing much of their anti-fraud work in the comfort of their homes or offices.
Increased use of technology and the rise of SIU analysts also likely is driving the increased use of desk investigators. Another driver is the expense. Desk investigations are more than a third less-expensive than field investigations, insurers report, although the differential in investigator salaries was only 15%.

 Granted, field work tends to be more-complex and involves more time-consuming investigations than deskwork. But the expense metric likely has caught the eye of senior insurer management. The growth of desk investigation thus likely will keep accelerating.

One significant change from previous studies is the number of referrals handled per investigator. Caseloads held steady in the 2015 and 2017 studies, with an average 12 referrals per month for field investigators and 24 for their desk counterparts. The caseload fell to 10.7 and 17 referrals, respectively, in the latest Coalition study.

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One possible explanation is that with technology and training, desk and field investigators may be handling fewer but larger and more-complex cases. Such cases require considerable time and resources. With the increase of insurer major-case units, the decline in caseload would be one result. Arguably, SIUs appear to be focusing more resources on large fraud rings that steal the most money, rather than smaller scams that can require time and effort but return much less money.
Tackling a large staged crash ring that steals millions in false whiplash claims may have a better ROI than a small burglary scam involving a couple of living room possessions.

This latest benchmarking survey was conducted pre-pandemic. With the onset of financial hardship for many Americans, the number of smaller attempts to defraud insurers (auto giveups, fake burglaries and phony injuries at work) likely will increase, perhaps encouraging insurers to focus more on smaller claims.

Outsourcing still rising

Next to the change from field to desk investigation, one of the most-prominent trends in previous Coalition benchmarking studies was the rise in outsourcing of SIU activities. The upturn in 2020 is smaller than previous years. Yet many insurers still increasingly look outside to conduct surveillance and investigations, and for legal services such as civil litigation involving automobile fraud medical.

Three quarters of the insurers surveyed say they outsource surveillance. That’s a 25% increase in just two years. Outsourcing investigations rose by the same amount. More than one in five insurers now outsource this basic function of their SIU operations. The trend is driven mainly by smaller insurers, which may have more need of outsourcing.

Outsourcing fraud-related legal services also took a sizable jump, from 30% to 40% in 2019. Smaller insurers once again are trend drivers. Their outsourcing more than doubled from 27% in 2017 to 57% in 2019. Outsourcing trends in
general are cyclical. They are influenced by available services, cost and corporate philosophy.

But outsourcing overall appears to be a permanent practice in the anti-fraud arena, driven by the ever-expanding sources of anti-fraud services. Firms offering anti-fraud analytics, for example, have grown substantially in recent years.

Referrals steady as percentage claims

Perhaps the most significant datapoint for insurers to compare with their competitors is the number of case referrals they accept as a percentage of total claims. This metric allows insurers to gauge whether they are receiving an adequate number of referrals from adjusters, their technology and other sources.

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A percentage significantly lower than other insurers of similar size and scope should raise questions: Is more fraud training needed for claims, underwriting and adjusting? Is screening by technology systems too rigid or simply not well-calibrated for the level of potential fraud exposure? Conversely, insurers that see a significantly higher percentage of accepted referrals may wish to review their underwriting and sales practices.
In any event, the percentage of accepted referrals has remained mostly steady through the last three studies, ranging from 1.8% to 2.5% for most lines of business. Workers comp, however, tends to be on the high side, outside that range. Overall, the stability of these numbers over the years speaks to the validity of these metrics.

Other shifts in SIU Operations

The latest SIU benchmarking survey covers 10 study areas with 63 data points. Most areas stayed largely the same as the 2017 study. However, the results did shift in a few areas:

**Fraud mitigation.** The percentage of insurers that track fraud mitigation fell from 87% to 80%. Are insurers growing more confident that their SIUs are a good investment, and believe they don’t have to track impact on their bottom lines? Or as one insurer said in a previous study, “We don’t need to track mitigation. Combatting fraud is just the right thing to do.”

This study also measures a slight drop in insurers that sponsor quality assurance programs for their anti-fraud units. While 90% of insurers surveyed say they had QA programs two years ago, they are down to 80% today.
The survey also showed a slight drop in the percentage of SIUs that train their investigators in the last two years, down from 97% to 90%. This finding coincides with a report from the California Department of Insurance that concluded many insurers are failing to comply with the state’s SIU training requirements.

**Major case units.** Nearly half (48%) of insurers surveyed report they now employ such units to focus on complex and organized fraud cases, up slightly from 2017. The rate of increase was nowhere near the level of previous years. Still, the fact that more major-case units are being created suggests that the focus continues to shift to multi-case investigations rather than “taking on one fraud at a time,” as one participant commented.

**Performance indicators.** More insurers are focusing on the quality and accuracy of investigations in evaluating investigator performance. The percentage of insurers that say they use this factor increased from 81% in 2015 to 90% in 2017, to 95% in 2019. This speaks to the increasing professionalism of investigators overall as the field continues to attract career-oriented employees who are well-trained and focused on continuing education.

**Budget.** As a percentage of direct written premium, SIU budgets fell 20 percent from 2017 to 2019. This doesn’t necessarily mean SIUs faced budget cuts, but it appears that SIU budgets at many companies may not be keeping pace with premium growth. Insurers reported that areas where budgets expanded the most was in technology and investigative staff.

**Salaries.** Average pay for fulltime SIU employees has edged up nicely in the last few years. Employees on average were paid $74,383 in 2015, $79,028 in 2017 to $84,715 in 2019. SIU managers are paid on average $119,000 while field investigators make $85,500. Average salary for a desk investigator is $73,000.

SIU BENCHMARKING STUDY

PROPERTY-CASUALTY INSURERS ARE SATISFIED WITH THEIR SIU OPERATIONS FOR 2017-2019

SIU EMPLOYEES 2019

16% DESK INVESTIGATORS
57% FIELD INVESTIGATORS

CASE REFERRALS FROM TECHNOLOGY 2017 VS 2019
22% 2017
15% 2019

OUTSOURCING INVESTIGATIONS 2017 VS 2019
16% 2017
21% 2019

MAJOR CASE UNITS 2019

52%

NOTABLE TRENDS

INCREASING DESK AGENTS
GROWTH IN OUTSOURCING INVESTIGATORS AND LEGAL HELP
ADDED FOCUS ON LARGER AND MORE-COMPLEX CASES

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