



Coalition Against
Insurance Fraud

STUDY ON SIU PERFORMANCE MEASUREMENT



June 2003

Coalition Against Insurance Fraud

Study of SIU Performance Measurement

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I. Executive Summary

This study was conducted to learn how insurers measure the performance of their SIUs. A review of the measurement systems of 52 insurers found there is little consistency from insurer to insurer in the methods they use in their performance systems. Findings include:

- SIU management has a responsibility to conduct performance review in about three of four companies with measurement systems in place. Senior management takes a role in overseeing measurement in approximately 42 percent of the companies.
- Most performance measurement is done annually (44 percent), although nearly a third of survey participants (29 percent) said they measure on a quarterly basis.
- The most popular method (29 percent) of calculating dollars not paid due to detection efforts was taking the estimated or actual dollar amount of claims submitted. Nearly 22% of respondents said they rely on amount of reserves to calculate savings.
- The two most cited factors used in measurement systems are the number of referrals and quality & accuracy of investigation. A large number also considers the training services provided by SIUs to other departments in measuring SIUs. Insurers use an average of five factors.
- There was almost an even split in whether insurers expensed SIU costs on an allocated or unallocated basis.

Recommendations for the future include developing one or more models of SIU performance to help guide insurers in structuring their programs. A followup study also should be considered to better understand how insurers consider deterrence in their measurement systems.

II. Purpose of study

The goal of the study is to learn how insurance companies in the United States measure the performance of their special investigation units (SIUs), what specific measurement devices are used and how they are applied.

Since the growth of anti-fraud efforts began in the early 1990s, insurance companies have increasingly focused on efforts to determine the value that SIUs bring to the corporation. Through statistical measurement, insurers have sought to gauge effectiveness, calculate return on investment and determine whether SIUs should be expanded, reduced, taken in-house or contracted out. While many anti-fraud activities were started because states required them, insurers still seek to understand whether SIUs are cost-effective and how they are performing over time.

A secondary purpose of this study was to determine whether there exists enough common elements within insurer measurement systems to suggest the creation of industry benchmarks.

A literature search did not find any data or earlier studies on this topic.

III. Methodology

In late 2001 the Coalition Against Insurance Fraud formed a Fraud Measurement Task Force (see roster in Appendix) and assigned this new panel the task of studying SIU measurement, among other activities.

The Task Force developed and tested a 10-question survey that was sent to approximately 110 SIU managers representing all lines of insurance. The survey forms were distributed by mail in September 2002 and were returned in either hard copy or by completing a form on the Internet. Completed survey forms were accepted through January 2003.

Survey results were tabulated and analyzed by staff of the Coalition Against Insurance Fraud with input from the Fraud Measurement Task Force.

IV. Survey results

A total of 52 SIU managers participated in the study by returning survey forms and providing data about their measurement programs.

Below are the results.

■ Measurement systems in place

Nearly 87 percent of insurers reported they sponsor formal programs to measure the effectiveness of their SIUs. Of the minority that reported no formal programs, there was no common reason why measurement systems had not been developed.

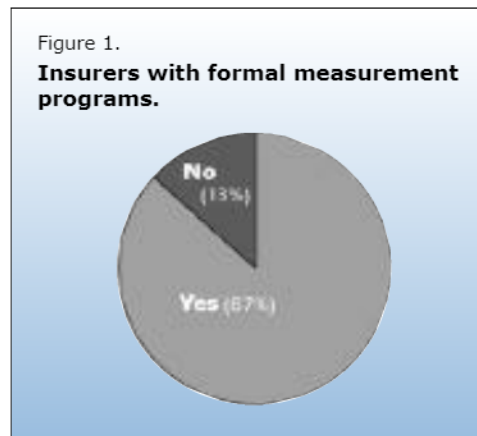
One SIU for a large multi-line insurer wrote: "We believe that tracking the outcome (of investigations), or dollars denied due to fraud, creates an unacceptable and unnecessary risk of civil litigation... In the best-case scenario, this creates the perception that SIU investigators are compensated for denying claims and at worst it creates actual bias by the SIU investigator."

While some insurers may not have formal programs, they reported they do compile statistics on anti-fraud activities for reporting requirements mandated by many states.

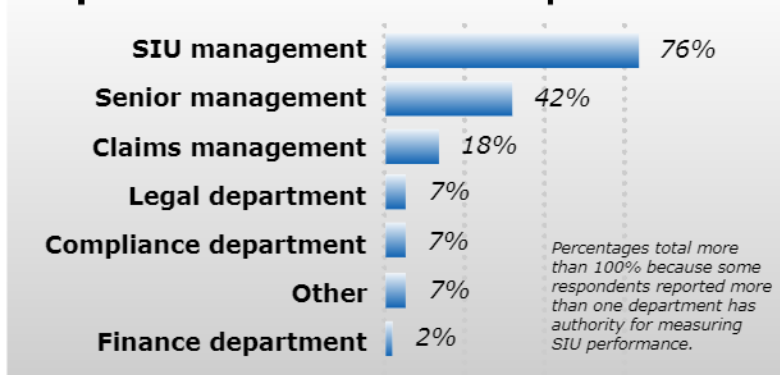
Respondents who reported no measurement systems in place included four medium-size companies, two small insurers and one large company.

■ Who measures?

More than three-quarters of participants reported that the responsibility for implementing measurement programs rests with the SIU department itself. However, half of those respondents said that other departments — mostly senior management and claims executives — also were involved in reviewing or overseeing measurement programs. Of the 45 respondents, 42 percent said senior management had a hand in measuring SIU and



Department that measures SIU performance



18 percent stated that the claims department was involved. To a much lesser degree, legal, compliance, finance and audit departments also were involved in measuring SIU performance.

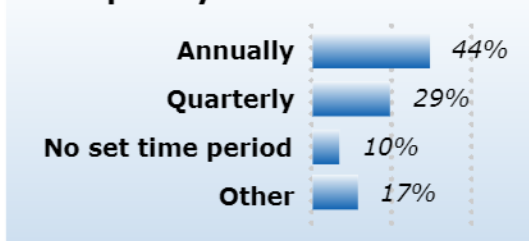
In reviewing whether insurer size might affect which

department measures, small and large insurers tended to be measured by SIUs, whereas medium-size insurers relied more on claims departments and senior management to conduct measurement programs.

■ How often?

Participants with measurement programs were asked how often measurement takes place. The most common time period cited was annually (44%). Nearly a third (29%) reported measuring unit effectiveness on a quarterly basis. Fewer than 10% said they had no set time period for

Frequency of measurement

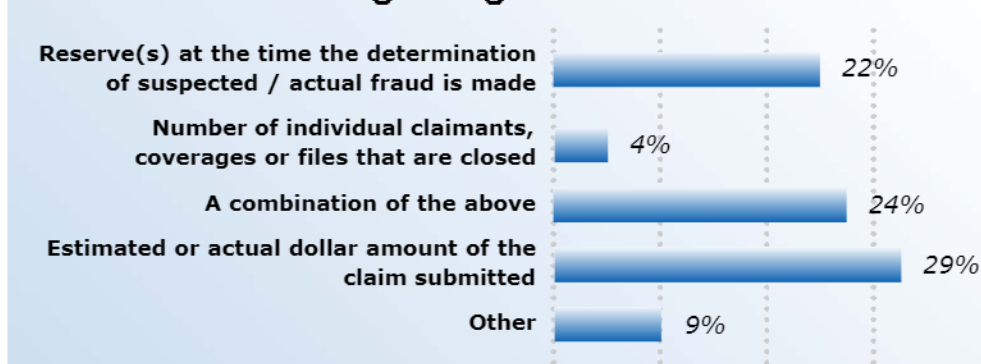


measuring or that it was done on an on-going basis. Large and small insurers tended to conduct reviews annually, while medium-size insurers tended to hold quarterly reviews.

■ Calculating savings

The most popular method (29 percent) for calculating dollars not paid due to detection efforts is taking the

Method of calculating savings of anti-fraud activities



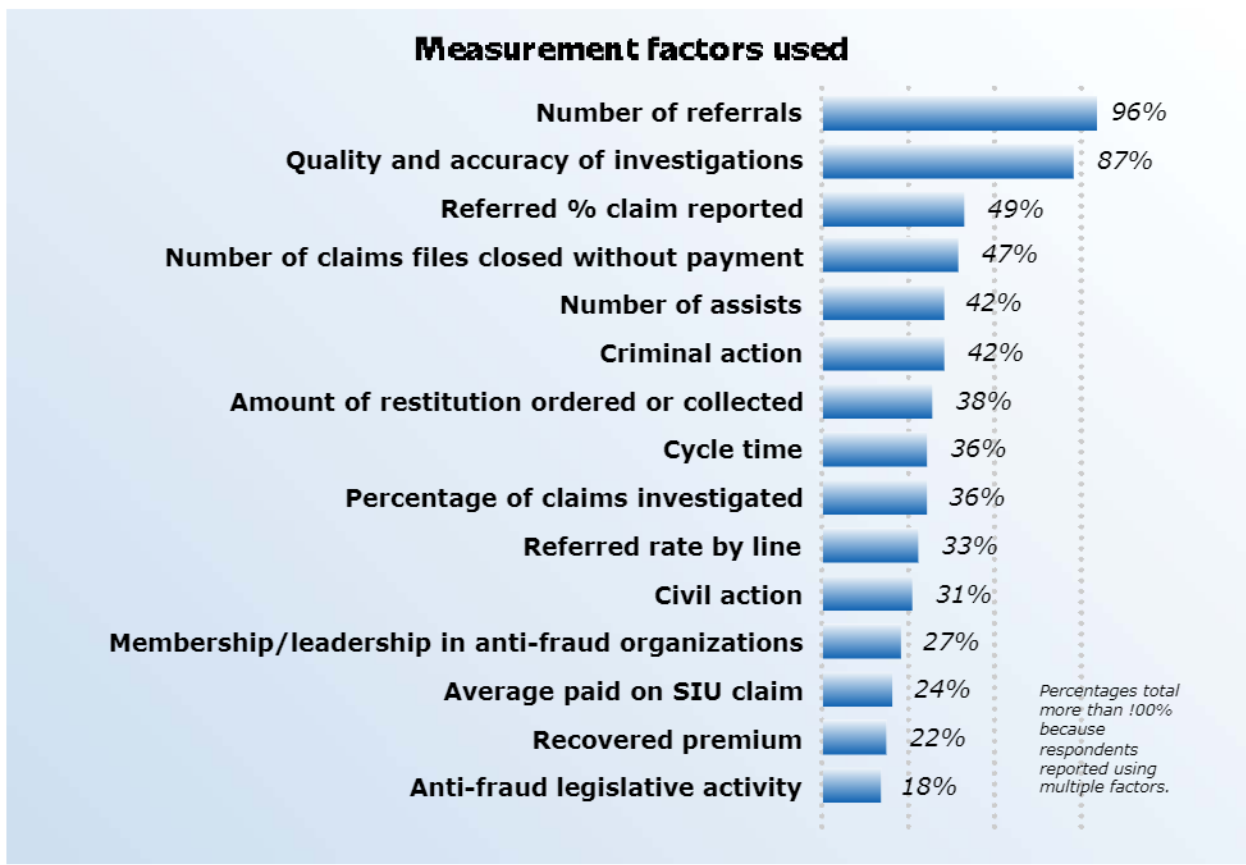
estimated or actual dollar amount of claims submitted. Nearly 22% said they rely on

amount of reserves to calculate savings. Another 24% said they use reserves and the number of closed claims. Six SIU managers reported they used other methods or intentionally did not calculate savings. There were no major deviations in reviewing respondent data by insurer size.

■ **Factors in measuring performance**

Respondents were presented with 15 possible factors that might be used in rating SIU performance. Only two factors were cited by a majority of respondents — number of referrals and quality and accuracy of investigations. How the latter factor is defined and determined was not explored since evaluating quality can be nebulous and intangible.

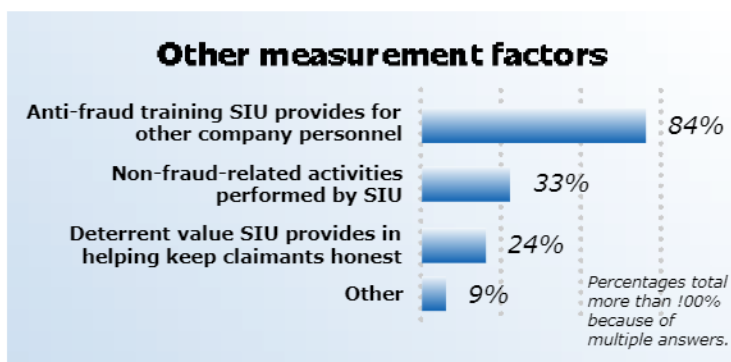
All but two respondents used the number of referrals their SIUs receive as a factor. Related to this factor is the percentage of claims that is referred to the SIU, a factor that is used by nearly half (49.8%) of respondents. The next most-used factor (46.7%) was the number of claims files referred to SIU that were closed without payment. The accompanying graph shows which factors insurers use, and how much. There also was a



wide distribution in the number of factors used by the respondents. Some companies only use one factor in the list of 15, while others use as many as 14. The average number of factors used in measurement systems was 5.4.

■ Other factors

Respondents were asked whether their SIUs were measured on non-detection activities, including their actions to deter future fraudulent acts, fraud training and other activities not traditionally related to fraud. A large majority considered

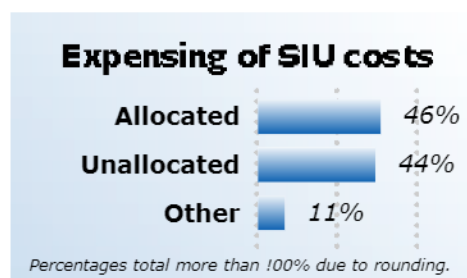


training activities performed by SIUs in their measurement systems. Such training usually includes education of claims, underwriting and other internal departments.

The value of deterrence is used by a quarter of respondents in their measurement systems. A third of respondents also used factors not related to fraud. As a group, fewer large insurers (19%) included non-fraud activities in their measurement program than medium-size (50%) and small insurers (40%).

■ Expensing SIU costs

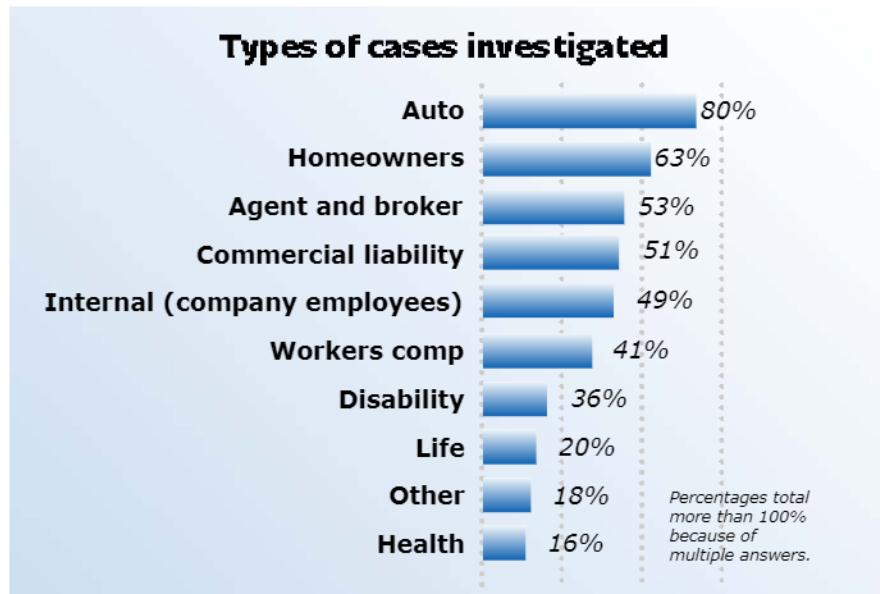
Understanding how insurers account for the costs of their SIUs is important because those cost measurements are sometimes used in conjunction with SIU savings to determine whether anti-fraud activities truly add to the insurer’s bottom line. Whether



expenses should be allocated to the claims file or unallocated as an administrative expense is a discussion beyond this study, but is a common topic of discussion within SIUs and insurance companies. The respondents are roughly equally split in the method they use (44% vs. 46%), with the remainder using a combination of the two methods. Small insurers tended to use allocated systems while medium-size insurers tended to use unallocated systems.

■ **Areas of insurance investigated**

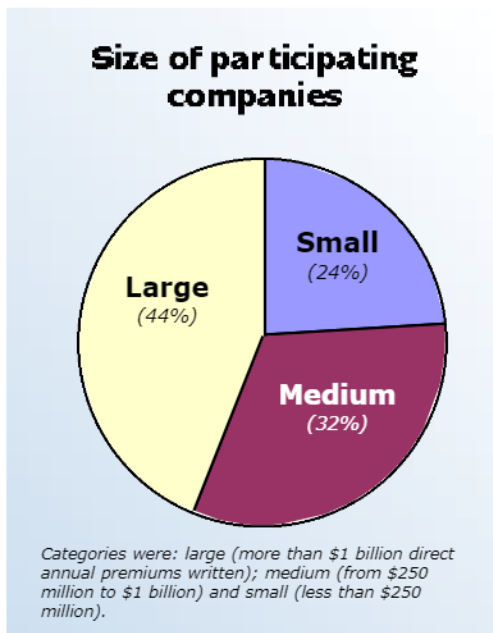
Slightly more than eight of 10 respondents investigated suspected fraud involving automobile claims, the most cited area of investigation by respondents. Other areas cited by the majority of respondents included



homeowners insurance, agent & broker fraud, commercial liability and internal fraud by company employees. Investigators of health insurance fraud represented the smallest percentage of respondents in the study.

■ **Size of participating insurance companies**

The study solicited responses from a variety of types and sizes of insurers to provide a fair cross-section of the insurance industry. Large insurers represented approximately 44 percent of respondents, medium-size insurance 32 percent and small insurance 24 percent.



V. Conclusions

Insurers use a variety of systems to measure their SIUs, with little commonality among factors used. Few correlations seem to exist between the types of systems and the size or line of business. That is, similar insurance companies used dissimilar systems. There is even great disparity in how often they measure performance. The prospect of developing an industry-wide system to help establish benchmarks for SIU performance seems bleak unless many insurers are willing to change their measurement programs.

However, insurers and others interested in promoting effective SIU measurement systems should consider developing model programs that would be helpful, especially for insurance companies that are just beginning to measure anti-fraud activity.

Insurers appear to fall into three broad, sometimes overlapping, categories: those without measurement systems, those that have them because states mandate annual data on anti-fraud activities, and those that see such systems as a true management tool to help to guide effectiveness.

Insurers that don't measure SIUs apparently do not conduct business in those states that require it, have relatively new anti-fraud programs or feel that measurement systems could be used against them in bad-faith litigation.

Three of four respondents report that measurement is conducted by SIU. Some may be concerned about such a high percentage conducting what appears to be a self-evaluation, which may not be as credible as one done by senior management or an "independent" department such as corporate audit. However, a closer analysis of the data reveals that half of those respondents measure performance in conjunction with another department, most likely in the review process. Still, that leaves half of those insurers — and 40% of all respondents — where SIUs alone are measuring their own operations.

Calculating savings from anti-fraud activities is another area where there is little commonality. Most either use the amount of the claim submitted or the reserve, but how companies arrive at that latter determination can vary greatly.

One clear finding in reviewing non-detection activities as measurement factors is the large number of SIUs that are involved in training internal departments about fraud. The fact that 84 percent consider training as a factor indicates the increasing emphasis on importance of having claims, underwriting and other departments knowledgeable about fraud and how to detect it or prevent it.

A quarter of respondents also said that deterrence is a factor in their measurement systems. Since measuring deterrence itself is difficult, a followup study may be needed to further explore how these insurers are using deterrence as a measurement factor.

No absolute conclusions should be derived from such a small sample of insurance companies, even though this sample represents a significant portion of the property/casualty industry marketshare. However, the authors encourage insurers interested in enhancing their anti-fraud operations to review these findings with an eye on how they might refine their operations to have the greatest impact on preventing and detecting insurance fraud.

Appendix A – Survey instrument

Coalition Against Insurance Fraud Survey on Measuring SIU Performance

Please complete all questions as thoroughly as possible. Space is provided after several of the questions for any further explanation you may wish to provide.

1) Does your company have a formal program to measure the effectiveness of the special investigations unit?

- Yes No (If yes, continue with question 2)

If not, why not? _____

> please continue with question 7

2) What level in your company conducts measurement of the unit that is charged with performing anti-fraud activities?

- Senior management
 Claims management
 Finance department
 Legal department
 Compliance department
 SIU management
 Other _____

3) How often is the performance evaluation conducted?

- Annually
 Quarterly
 No set time period
 Other _____

4) What method of calculation of dollars not paid due to suspected or actual fraud is used by your company?

- Reserve(s) at the time the determination of suspected / actual fraud is made
 Number of individual claimants, coverages or files that are closed
 Estimated or actual dollar amount of the claim submitted
 A combination of #2 and #3
 Other _____

5) Are any of the following factors used in your evaluation process?
(check all that apply)

- Number of referrals
 Number of assists
 Average paid on SIU claim
-

- Recovered premium
- Cycle time
- Referred rate by line
- Referred % claim reported
- % of claims investigated
- Number of claims files closed without payment
- Amount of restitution ordered or collected
- Criminal action
- Civil action
- Anti-fraud legislative activity
- Membership/leadership positions in anti-fraud organizations
- Quality and accuracy of investigations

6) Does your measurement system consider any of the following? (check all that apply)

- Deterrent value SIU provides in helping keep claimants honest
- Anti-fraud training SIU provides for other company personnel
- Non-fraud-related activities performed by SIU
- Other _____

7) How does your company expense the operating costs of your SIU?

- Allocated basis
- Unallocated basis
- Other _____

8) Types of fraud investigations conducted by your SIU? (check all that apply):

- Auto
- Homeowners
- Life
- Health
- Commercial liability
- Disability
- Workers comp
- Agent and broker
- Internal (company employees)
- Other _____

9) Your company's total premium volume:

- Up to \$250 million
- \$250 million up to \$1 billion
- More than \$1 billion

10) Any other comments that would be helpful in understanding your company's SIU or measurement program: _____

Appendix B – Survey participants

| | |
|--|--------------------------------|
| Accident Fund Insurance Company of America | Kemper Insurance Legion |
| ACE USA | MAMSI |
| Allmerica Financial | Merchants Insurance |
| Allstate | Meridian Resource Company |
| American Express Property Casualty | MetLife Auto & Home |
| American General | MSI Insurance |
| American National Property & Casualty | One Beacon |
| Amerisure Mutual Insurance Company | Pemco Insurance |
| Amica | Penn National |
| Bristol West | Progressive |
| California Casualty | Prudential Property & Casualty |
| Celina Insurance Group | Robert Plan |
| Commerce Insurance Company | Safeco |
| Countryway Insurance Company | SC Farm Bureau |
| Crum & Forster Insurance | Scottsdale Insurance |
| Empire Fire and Marine | Shelter Insurance |
| Erie | St. Paul |
| Farmers Insurance | State Farm |
| Fireman's Fund | The Hartford |
| Geico | Unigard Insurance |
| GMAC Insurance | United Healthcare |
| Great West Casualty | Unitrin Direct Auto Insurance |
| Hartford Life | Universal Underwriters Group |
| John Hancock Life Insurance Company | Unum Provident |
| | Vesta Insurance |
| | Wellpoint Health Networks |

Appendix B – Roster, Fraud Measurement Task Force

Jim Brown

Center for Consumer Affairs, University of Wisconsin/Milwaukee

Gerry Lynch

ChoicePoint

Jim Bonk

CNA

Brian Soltis

Fireman's Fund

Joseph J. Cohen

International Assn of Insurance Fraud Agencies

Tommy Short

International Assn of SIUs

Seth Perlmutter

LexisNexis

Dennis Toomey

Liberty Mutual

Alan Fridkin

Mass Mutual

Kevin O'Connor

MJM Investigations

Ray Albertini

Progressive Insurance

Dennis Schulkins

State Farm

Kent Davis

St. Paul Insurance

Jack Houston

Travelers Insurance

Staff

Dennis Jay

Coalition Against Insurance Fraud



Coalition Against Insurance Fraud

The Coalition Against Insurance Fraud was launched in 1993 as a broad-based effort to combat a national, multi-billion-dollar problem. It is the only national organization dedicated exclusively to fighting insurance fraud through public advocacy and public education.

The Coalition's mission is to use the combined energy and resources of consumers, government organizations and insurers to combat all forms of insurance fraud as a means to restrain insurance costs for consumers and insurers, and to bring greater fairness to, while maintaining the integrity of, the insurance system in the United States.

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