A Forrester Consulting
Thought Leadership Paper
Commissioned By TransUnion

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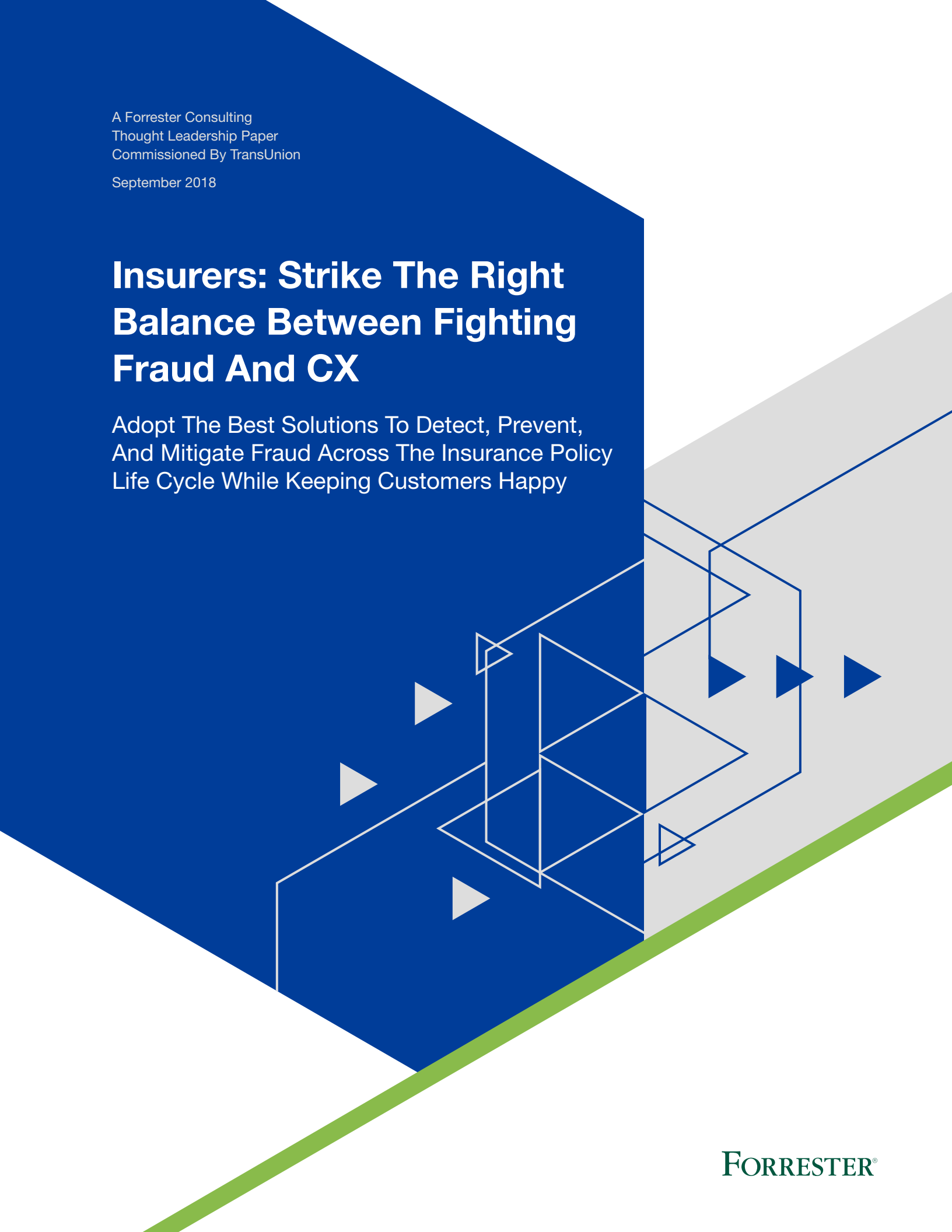
Insurers: Strike The Right Balance Between Fighting Fraud And CX

Adopt The Best Solutions To Detect, Prevent, And Mitigate Fraud Across The Insurance Policy Life Cycle While Keeping Customers Happy



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ABOUT FORRESTER CONSULTING

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Executive Summary

In the US alone, the total cost of property-casualty and auto insurance fraud is estimated to be more than $30 billion per year.[1] Additionally, the majority of insurers report that fraud contributes at least 5 percentage points to their combined ratio.[2] Clearly there are economic implications of fraud for insurers.

But in the age of the customer, fraud poses an even bigger problem, beyond its cost to the industry. Insurers who want to continue to win, serve, and retain their customers must consider not just the economic impact of fraud, but also the way in which fraud — and all the false alerts, detection and prevention procedures, and investigations that go with it — impacts their customers' experiences (CX).

In June 2018, TransUnion commissioned Forrester Consulting to evaluate the state of fraud within the insurance industry. Forrester conducted an online survey of over 150 fraud detection and prevention insurance professionals in the US, Canada, and India to explore this topic. We found that insurers are constantly looking to strike a balance between mitigating fraud and maintaining excellent CX, but so often, their current toolkits let them down.

The majority of today's insurance firms feel vulnerable to fraud.

60% of insurers agree that customers are more likely to purchase more products when they have good online experiences.

KEY FINDINGS

- **Fraud, especially identity fraud, continues to threaten insurance firms, as they work to constantly improve CX.** Insurers acknowledge that fraudsters can drastically impact the well-being of their business and their customers. At the same time, they know that customers expect to receive speedy, seamless, and high quality interactions. In order to keep customers happy, the ability to successfully detect and mitigate fraud therefore must be balanced with prevention procedures that do not sacrifice CX.
- **Firms feel vulnerable to fraud across the policy life cycle.** Most firms report feeling vulnerable to insurance fraud due in part to fraudsters who are constantly evolving their tactics and tools. As a result, identification and prevention practices fall short and even worse, place an undue burden on good customers. Furthermore, firms admit that although fraud happens frequently throughout all stages of the policy life cycle, they are more likely to detect it during the marketing stage. Unfortunately, this only makes insurers more vulnerable.
- **Currently implemented solutions aren't up to par.** Less than 25% of insurers are satisfied with the solutions they have in place today. In their quest to mitigate fraud, insurers are most often challenged by inflexible solutions and a lack of trained/skilled employees to utilize these tools. Plagued by inaccuracy and integration issues, 60% of insurers plan to solve their issues by enhancing or replacing their current solutions.
- **Insurers need automated, integrated solutions to reap business benefits.** Insurers recognize the need to bridge the gaps that make their current tools ineffective. Solutions that automate processes and decisions, while also providing ID verification and authentication, can help firms better detect and prevent fraud, which, in turn, will lead to business benefits such as decreased costs and losses, improved brand reputation, and a more engaged customer base.

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Fraud Is An Increasingly Serious Problem For Insurers And Their Customers

Fraud — and its associated detection procedures — are a problem for both insurer and customer. Insurers are being squeezed to improve the performance of their fraud identification efforts at the same time that their anti-fraud initiatives aim to drive the best bottom-line results. Customers, on the other hand, continue to struggle through tedious claims processes or face delayed claim payments due to false positives. But what is it exactly that makes fraud such a dangerous and complex issue? Our study explored this issue for three types of insurance fraud: identity fraud, soft fraud, and hard fraud (see Figure 1).

INSURANCE MARKET DYNAMICS ARE CHANGING

As customer interactions become increasingly digital, and consumers themselves demand exceptional and seamless experiences, insurance firms must contend with how these changes will impact the way they detect, mitigate, and prevent fraud. Survey respondents say:

- **The state of fraud is constantly evolving.** Seventy-three percent of survey respondents agreed that fraud negatively impacts customer experience, leading to abandonment and attrition. This comes at a time when insurers say customer experience and revenue growth are their top priories over the coming year.[3] This is concerning, as 66% of respondents agreed fraudsters are constantly evolving their tactics and are always one step ahead. This paints a grim picture for insurers looking to limit fraud and protect their customer base.
- **Customers demand exceptional experiences in order to retain their business.** Insurance professionals agree customers today expect to receive speedy, seamless, and high quality digital experiences (63% of insurance professionals agree). Being able to meet these expectations and deliver superior online experiences is important since customers who encounter a good CX are more likely to come back and purchase more products (60% of insurance professionals in this study agree).[4]
- **Aggressive fraud detection solutions put good customer experience at risk.** If delivering good CX is critical to maintaining customers, fraud authentication measures are a double-edged sword for insurance firms. Sixty-five percent of insurance professionals agree the tactics they have in place to weed out fraudsters can negatively impact their good customers. Not surprisingly then, 59% say to be successful, fraud detection measures must strike that critical balance between identifying fraudulent behavior and providing the seamless experiences that are so important to their customers.

> "People always try to come up with new innovative ways to trick the institution."
>
> *Life insurance manager*

US insurers are almost 2x more likely than firms in Canada or India to agree that customers expect excellent digital experiences.

Figure 1

Identity fraud	Soft fraud	Hard fraud
A compromised or stolen identity being used to apply for insurance or to file a claim.	Applicants or policyholders alter or omit information to obtain a lower premium (also known as rate evasion) or misrepresent the value of a claimed item.	The deliberate staging or embellishing of a loss for financial gain.

INSURANCE FIRMS FEEL VULNERABLE TO FRAUD

The state of fraud detection and prevention at insurance companies is tenuous as firms report feeling vulnerable because they lack confidence in their abilities to detect and mitigate fraud. Fifty-five percent of firms are not confident in their ability to detect hard fraud, 49% are not confident in their ability to detect soft fraud, and 40% are not confident in their ability to detect identity fraud. Why is this? We found:

› **Insurers are detecting increases in all types of fraud.** The vast majority of insurance firms surveyed have experienced either an increase in or a steady amount of fraud over the past year (see Figure 2). The increase is particularly evident when it comes to identity fraud, where just over one fifth of respondents have seen significantly more, and soft fraud, which is increasing for nearly two-thirds of firms. Hard fraud also continues to plague many of the insurers surveyed.

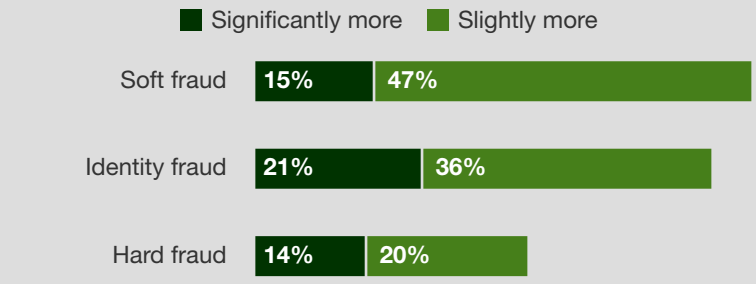
"Our end-user data is very important to us and for its sake, we always consider ourselves vulnerable to fraud."

Commercial auto insurance director

Insurers in Canada are almost 3x more likely to detect significantly more identity fraud than US insurers.

Figure 2

"In the past 12 months has your company detected less, more, or an equal amount of the following types of fraud compared with the previous year?"



Base: 159 fraud detection/prevention decision makers in the insurance industry
Source: A commissioned study conducted by Forrester Consulting on behalf of TransUnion, June 2018

62% of firms see an increase in soft fraud.

57% of firms see an increase in identity fraud.

34% of firms see an increase in hard fraud.

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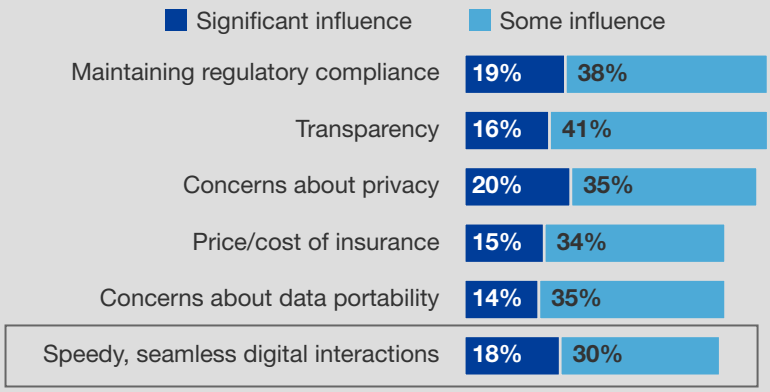
- **Installed detection tools leave a lot to be desired.** Less than a quarter of all firms surveyed are completely satisfied with their currently implemented fraud detection and prevention solutions. In fact, a general concern with these tools is part of what's driving this vulnerability — many respondents told us they believe their systems are too outdated or their firms are too ill-equipped to keep pace with increasing fraud levels.
- **Firms struggle to keep up with adaptable fraudsters.** Insurance professionals are vague when you ask them where their ability to combat fraud comes from, noting most often a general belief in good overall security and a high level of trust in the systems they have in place. However, they also acknowledge the fact that fraudsters are constantly evolving their tactics, staying a few steps ahead of implemented tools and the capabilities of internal teams, increasing insurers' vulnerability. Furthermore, firms rely on a variety of methods to detect identity and soft fraud; but these methods are used less often to detect hard fraud. This again leaves firms vulnerable to fraudsters that are continually evolving their tactics.
- **Customer experience is in danger of falling by the wayside.** When thinking about how customer expectations influence the way these firms detect fraud, respondents say they are most often guided by regulatory compliance and their customer's desires around transparency and privacy. However, less than half say they consider speedy, seamless digital interactions. And shockingly, fewer than one in five say their customers' desire for good experiences has significant influence on how they detect fraud (see Figure 3). Given their knowledge of the importance of CX, it seems that insurance providers may not have their priorities straight. This may stem from the fact that different departments and roles within an organization are tasked with CX and fraud prevention. Breaking down these silos and promoting cross-departmental collaboration goes a long way in formulating an effective insurance fraud management strategy.

"Without a proper system, we are like sitting ducks for the fraudsters to come and commit fraud."

Life insurance director

Figure 3

"Which of the following customer expectations are influencing the way your firm detects fraud?"



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Red flag for CX: Maintaining excellent digital experiences for their customers has the least amount of influence on how insurers currently detect fraud.

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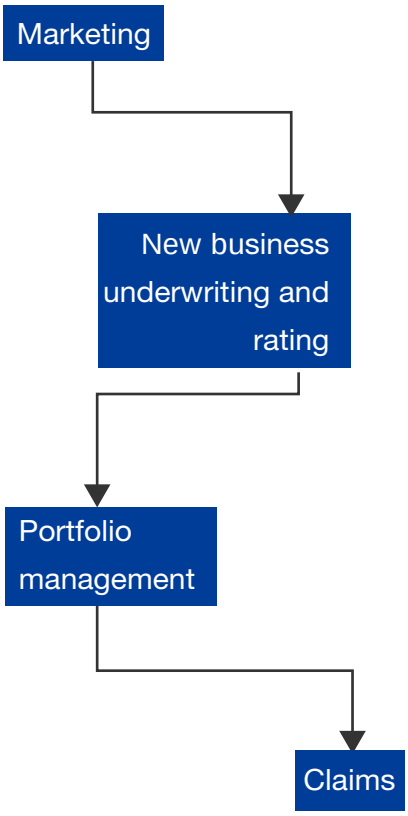
Firms Struggle To Tackle Fraud Across All Stages Of The Policy Life Cycle

Fraud detection and prevention can be difficult for many reasons — some already detailed above. But one particularly complicating factor is the fact that fraud has the potential to occur at any point during the policy life cycle. This study asked respondents to consider the detection and prevention of identity, soft, and hard fraud across the four stages of the policy life cycle, defined here as marketing; new business underwriting and rating; portfolio management; and claims. The research ultimately found:

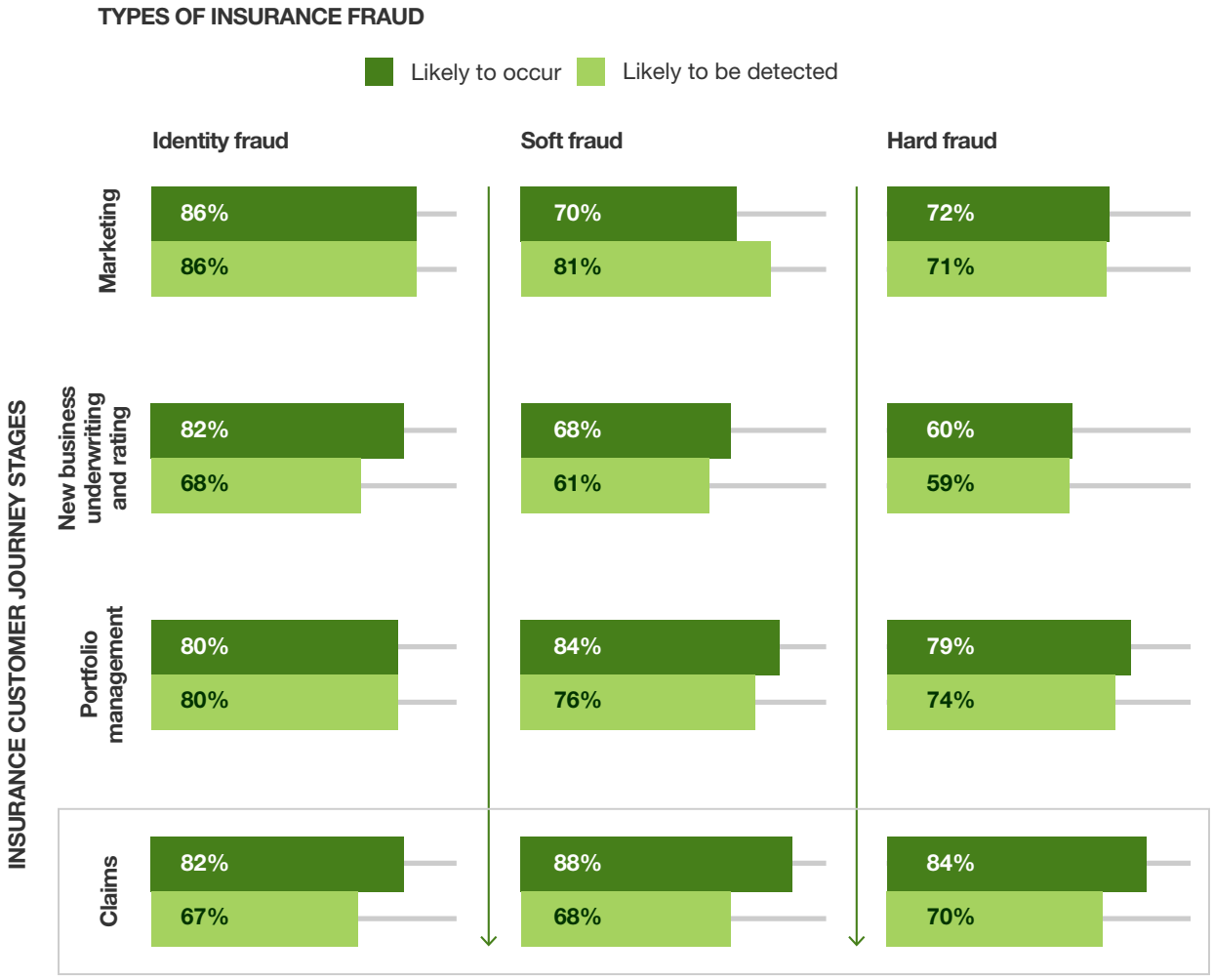
- **Fraud occurs at all stages, but is most likely to be detected during the marketing stage.** Every stage of the policy life cycle is susceptible to fraud. For instance, both soft and hard fraud are most likely to occur during claims and portfolio management. However, insurance professionals say all types of fraud are most likely to be detected during the marketing phase as the insurer looks to acquire a new customer. Detecting fraud in this stage is necessary for the business; being able to prevent fraudulent claims and losses down the road means this is the least expensive phase for fraud detection. But it's also a concern, as it means that fraud is going undetected in other stages, especially during claims (see Figure 4). In fact, the largest gap between occurrence and detection rates for all types of fraud exists in the claims stage. This leaves firms vulnerable to fraudsters who either focus on other stages or are able to get past the initial marketing stage undetected.
- **Lack of skillsets and inadequate solutions are the most frequently named challenges.** Fraud detection and prevention requires teams to have expertise in skills like data science, fraud management, and investigation. Unfortunately, 53% of insurance professionals are challenged by a lack of critical specialized skills on their internal teams. Training is also an issue: 64% of insurance professionals say training and educating employees in fraud detection and prevention is a key challenge for them. Another top challenge is the solutions they currently have in place lack the flexibility to adjust in real time (57%). Collectively, all of these issues create another problem that tests firms: end-user authentication is overcomplicated, creating poor CX (58%).
- **Installed fraud solutions fall short in deployment, policy management, and integration with the broader internal transactional processing ecosystem.** Currently, the solutions insurance firms have implemented are not sufficiently supporting fraud detection and prevention efforts. Respondents complain of inaccurate detection, overly complex deployment and policy management, and limited abilities to detect fraud across a broad claims paradigm. These overall shortcomings are compounded by missing capabilities. Seventy-two percent of insurance professionals say they lack a multilayered and integrated platform approach, while just over half report missing data sharing capabilities (55%) and identity verification and authentication (51%). If the tools that firms currently have are failing to meet their needs, this will only compound the potential threat fraud continues to pose.

Stages in the insurance policy life cycle:



The largest gap between frequency of fraud and likelihood of detection happens within the claims stage of the policy life cycle.

Figure 4



Base: 159 fraud detection/prevention decision makers in the insurance industry
Source: A commissioned study conducted by Forrester Consulting on behalf of TransUnion, June 2018

Insurers Need Better Tools To Successfully Tackle Fraud, Protect Their Customer Base, And Drive Business Growth

To combat fraud, insurers must arm themselves with solutions that bridge the gap between currently implemented tools and maintaining an eye to customer experience. Without this assistance, insurers risk damaging existing customer relationships, deterring potential new ones, and generally putting themselves at a financial disadvantage in an increasingly commoditized and competitive insurance market.

> "There are no fixed ways of committing fraud, so we need to continuously evolve our setup. This requires a lot of effort and time; which makes us vulnerable."
>
> *Life insurance manager*

BOTH FRAUD ITSELF AND THE DETECTION PROCESS NEGATIVELY IMPACTS INSURERS

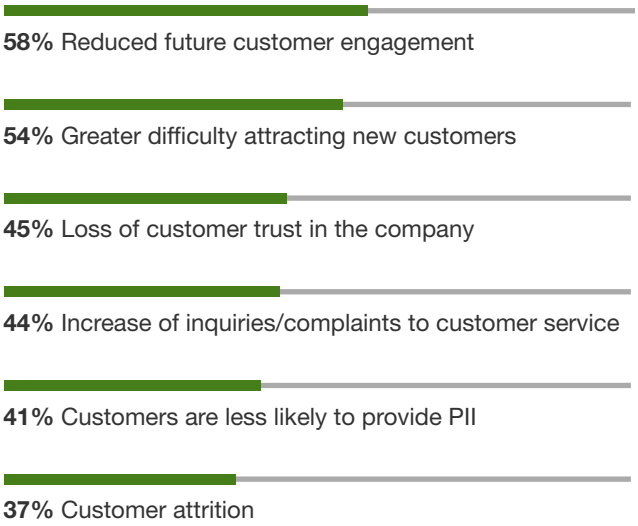
Our study found that the overall cost of fraud is very high — 59% of insurance professionals say fraud contributes at least 5 percentage points to their combined ratio. And it can also be damaging in other ways:

- **Fraud hurts the brand and the bottom line.** Fraud (including false alerts and investigations) is detrimental to the health of an insurer's business. Respondents believe that the No. 1 impact to the business is damage to the brand and reputation, but there are financial ramifications too. Losses from write-offs, non-compliance fines, lawsuits, investigation costs, and legal and PR services costs are also concerning impacts of fraud (see Figure 5).
- **Fraud also impacts the customer experience.** It's not just the business that suffers. Fraud decreases customer engagement and deters potential customers from purchasing additional insurance policies with the company (see Figure 5). Without engaged, loyal customers, and the potential to bring new business and new customers on, attrition also naturally follows.
- **Poor detection procedures alienate customers, causing attrition and lost revenue.** Fifty-three percent of insurance firms say, as a result of fraud detection and mitigation processes, customers will abandon their application. This is likely due to the fact that extra steps are now required to interact with these insurance companies (50%) and the process is lengthened overall (50%). Firms also worry good customers can get caught in the detection process, flagging them in error, and damaging the overall experience.

Figure 5

"What impact does fraud (including false alerts and investigations) have on your business — significant and substantial impact?"

"What impact does fraud (including false alerts and investigations) have on your customer — significant and substantial impact?"



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THE RIGHT SOLUTION HELPS MITIGATE THESE NEGATIVE EFFECTS AND LEADS TO BUSINESS BENEFITS

The vast majority of insurers today have some sort of fraud prevention and detection tool in place. Ninety-eight percent of survey respondents are either planning to adopt, currently adopting, or already have a solution in place. Within that 98%, 37% are planning to expand, enhance, or replace that solution. Obviously, the right tool is critical. Survey respondents further reported:

› **Automation and identity verification are critical to successful solutions.** Solutions must come equipped with the right capabilities to be truly useful. Respondents in this survey find the most value in automated processes and decisions and identity verification and authentication when evaluating the technical capabilities of fraud detection and prevention solutions (see Figure 6). Interestingly, over half of all firms value an integrated, multilayered platform approach to fraud detection — something many also noted their currently implemented tools are lacking. Without this integrated platform approach, firms are forced to patch together various point solutions. If one solution, or one solution suite, can replace what once took many disparate tools, firms will likely be able to cut down on management time and costs, improving bottom-line performance.

US insurers find AI capabilities more valuable in a fraud detection and prevention solution than their Canadian counterparts (38% versus 17% very valuable).

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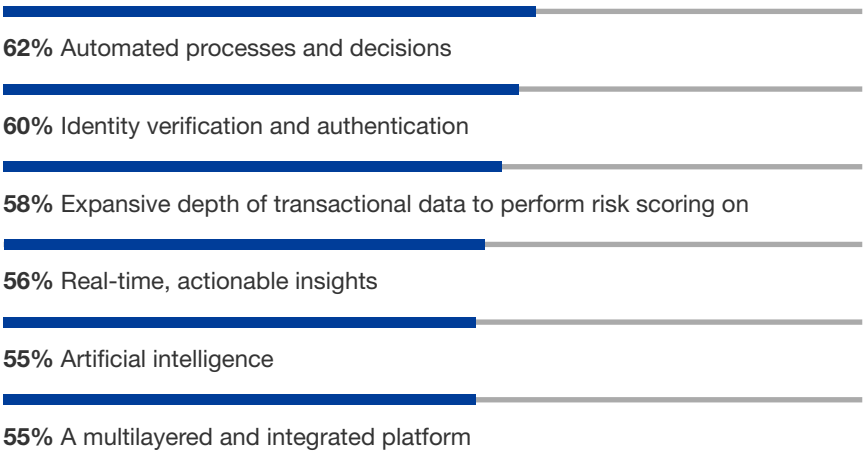
› **When fraud is mitigated, firms win and retain customers while cutting spend and losses.** If fraud has the potential to derail business success, working to effectively detect and prevent fraudsters from wreaking havoc can drive business benefits. Three quarters of surveyed firms say they measure the ROI of fraud solutions via increased customer acquisition and retention, and 53% expect improved customer experience. Many others expect investigation/remediation spend and losses to decrease as well.

Figure 6

Most valuable technical capabilities in a fraud detection and prevention solution:



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Key Recommendations

The ever-expanding set of digital capabilities consumers — and their agents — expect from their insurers are a double-edged sword. Consumers set a high bar when it comes to the expectations they have for their insurers, which are based on the interactions they have with banks, retailers, and airlines. That ease and convenience, while delivering solid customer experience, exposes insurers to greater risk. Can insurers deliver simple and effective digital experiences while outwitting the fraudsters?

Forrester's in-depth survey of insurance professionals about detecting and preventing fraud yielded several important recommendations to help answer that question:

Select an integrated fraud management solution. Without using an integrated and end-to-end solution, fraud management detection, investigation, and reporting workflows get stuck in silos, greatly impacting efficiency. Insurers should select solutions that support identity verification and theft detection, screening, as well as transactional insurance claims and payment fraud.

Raise your fraud intelligence by focusing on data quality and velocity. Smart insurance fraud teams ensure they capture as much *accurate* data as possible in every interaction, without making it inconvenient and hard for customers. That improved data quality and access doesn't just help fraud teams get their jobs done; it also helps CX teams deliver better experiences while helping fuel the insurer's data engines. Enriching data during the policy life cycle also helps with achieving more accurate insurance fraud decisions.

Encourage internal and external data sharing for smarter fraud response. Insurance fraud teams must leave their siloed business practices behind. The more that collaboration and data sharing is encouraged across the business, the better and faster that fraudsters can be identified and thwarted. Shared case management platforms and real-time tracking are a great first step; however, any data sharing must happen in a secure and privacy-sensitive manner to avoid data breaches.

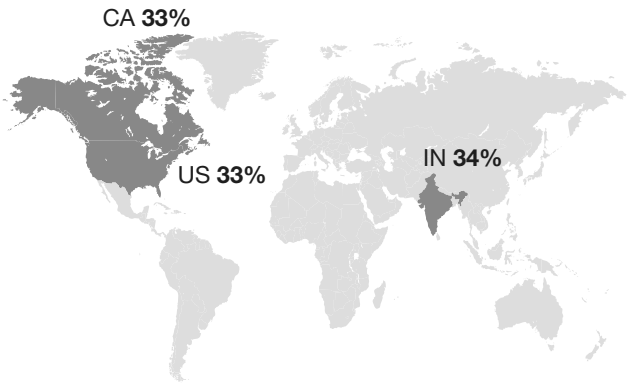
Develop repeatable and actionable metrics to gauge the effectiveness of your fraud strategy. Metrics don't just prove that your fraud identification and prevention strategy is working. Metrics also communicate the value of the fraud team's efforts and justifies budgets. This means that fraud professionals need to select a baseline set of metrics and be prepared to modify or add new ones over time as fraudsters up their game.

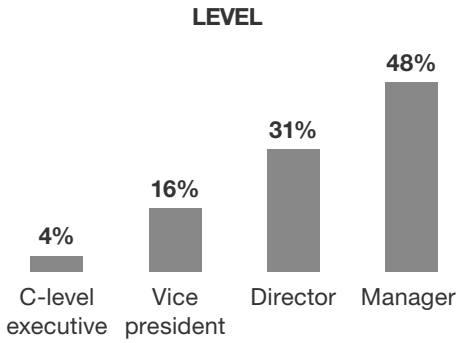
Evolve your strategy to identify and address fraud at all stages of the policy life cycle. The business of insurance depends on broad networks that span the insurance value chain, from underwriting new business to helping the customer file a claim. These partnerships and customer engagement models have extended a definition of identity that insurers must consider. Insurance fraud professionals and their security counterparts must manage identities, enrollment fraud, claims fraud, payment fraud and access across a variety of populations (employees, partners, and customers), device access methods, and hosting models.

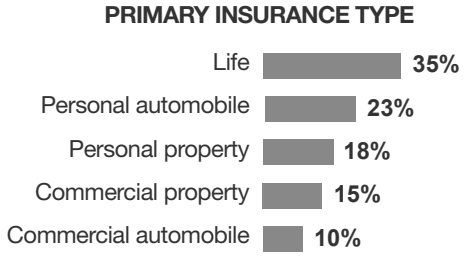
Appendix A: Methodology

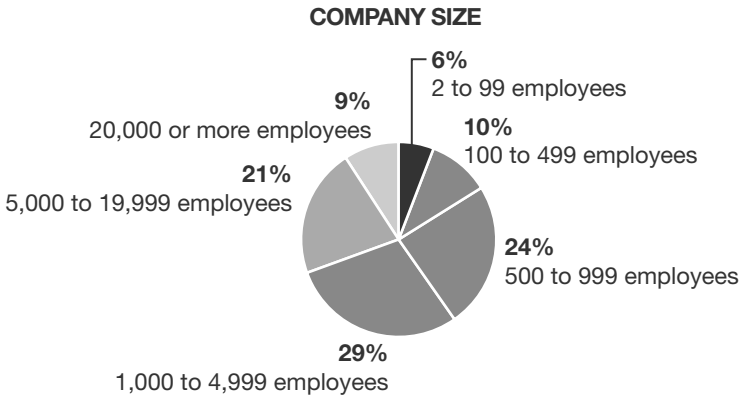
In this study, Forrester conducted an online survey of 159 insurance professionals in the US, Canada, and India to evaluate the state of fraud and detection and prevention strategies among life, automobile, and property insurance firms. Respondents were offered an incentive as a thank you for time spent on the survey. The study began in May 2018 and was completed in June 2018.

Appendix B: Demographics/Data









Base: 159 fraud detection/prevention decision makers in the insurance industry
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Appendix C: Supplemental Material

RELATED FORRESTER RESEARCH

"The US Auto And Home Insurers Customer Experience Index, 2018," Forrester Research, Inc., June 20, 2018.

"The State Of Digital Insurance, 2018," Forrester Research, Inc., January 25, 2018.

"Forrester Analytics: Fraud Management Solutions Forecast, 2017 To 2023 (Global)," Forrester Research, Inc., July 9, 2018.

Appendix D: Endnotes

[1] Source: Scott Cohn, "The American Greed Report: You could be committing insurance fraud. Here's why you should care." CNBC, August 12, 2017 (https://www.cnbc.com/2017/08/12/you-could-be-committing-insurance-fraud-heres-why-you-should-care.html).

[2] Source: A commissioned study conducted by Forrester Consulting on behalf of TransUnion, June 2018

[3] In Q2 2018, Forrester asked global senior insurance purchase influencers what the top priorities of their organizations were in the coming year. The top priority was improving customer experience, which 49% of respondents agreed or strongly agreed with. The second priority was "growing revenue," which 47% of respondents agreed or strongly agreed with. Source: Forrester Research Forrester's Global Business Technographics Priorities And Journey Survey, 2018.

[4] Customer experience leaders grow revenue faster than CX laggards, drive higher brand preference, and can charge more for their products. See the Forrester report "The US Auto And Home Insurers Customer Experience Index, 2018."