Life assurers show zero tolerance for fraud

South African life assurers have reported a significant increase in the value of prevented fraudulent death, disability and funeral cover claims in 2011.

Claims fraud statistics released by the Association for Savings and Investment South Africa (ASISA) this week show that the value of death, disability and funeral claims involving fraudulent documentation and syndicate activity has jumped from R26.2m in 2010 to a whopping R131.7m in 2011. The actual number of these claims increased from 452 in 2010 to 545 in 2011.

Peter Dempsey, deputy chief executive of ASISA, says while a small proportion of these claims were paid before fraud was detected, most of the fraudulent claims in 2011 were uncovered by life assurers before money was lost.

"Life companies are often seen as soft targets by criminals hoping to access benefits through fraudulent means. Life companies have, however, put sophisticated fraud detection mechanisms in place to allow for early detection," he said.

Dempsey says while fraudulent claims have shown a marked increase, claims involving dishonesty rather than criminal intent have shown an impressive R142m decrease from R605.6m in 2010 to R463.6m in 2011.

He explains that this is mainly due to a substantial drop in misrepresentation and material non-disclosure across all types of cover.

Misrepresentation occurs when a policyholder deliberately provides misleading information to a life assurer, for example adding someone else's child to a funeral policy, pretending that it is your own child.

Material non-disclosure refers to the deliberate failure of policyholders to disclose information about a medical or lifestyle condition, which is material to the assessment of the risk to be covered. An example of material non-disclosure is when an applicant for life cover omits to mention that he or she participates in dangerous sports. Another example would be not disclosing a serious back injury when applying for disability cover.

In 2011, a total of R599.7m dishonest and fraudulent claims were detected, compared with R638.3m in 2010 - a decrease of R38.6m.

Dempsey warns that insurers are increasingly taking a zero tolerance approach to claims involving any kind of fraud, which may result in a criminal investigation, prosecution and even prison.