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THE ANATOMY OF INSURANCE FRAUDS IN INDIA: PREVENTION AND DETECTION

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ABSTRACT

The insurance sector plays an important role as a financial safeguard for the economic stability of individuals and businesses. It provides a blanket protection to businesses and events offering financial relief and security in case of unforeseen events. Over the years the Indian insurance sector has witnessed substantial growth, with an increasing number of individuals and entities seeking coverage for life, property, health, and more. However, with growth comes challenges insurance fraud has emerged as a critical issue in the insurance sector leading to significant financial losses and breach of trust between the insurers and policyholders. The lack of a robust verification process, comprehensive training, and awareness programs are key attributes of insurance fraud. The regulatory framework in India spearheaded by the Insurance Regulatory and Development Authority of India (IRDAI) has taken proactive measures to address these challenges but despite these efforts, the dynamic nature of insurance fraud demands continuous innovation and prevention strategies. As the insurance sector evolves it should also be able to adopt recent trends to combat the ongoing frauds if not addressed soon it will lead to a cycle of distrust and inefficiency between the insurers and policyholders which can be challenging to break. This article analyses the various forms of insurance fraud rampant in India and seeks to shed light on effective strategies for prevention and detection.

Keywords: Insurance fraud, strategies, detection, prevention, regulatory framework.

INTRODUCTION

According to the Cambridge Dictionary, the definition of Insurance means an agreement in which you pay a company money and they pay your costs in case of an accident, injury, etc[1351]. In other words, insurance is a contract or agreement between an individual or entities with the insurance company to compensate and provide financial support to mitigate the damages suffered due to unforeseeable circumstances. The insurance contract is termed as a policy where people who are willing to acquire the policy pay a certain amount in the name of a premium to obtain the benefits. The premium and its payment interval varies from case to case based on the policy. Though the insurance policies yields comprehensive coverage for loss it comes with its own set of challenges in the name of insurance frauds.

Basically, insurance fraud is committed against the insurance company by intentionally deceiving or misleading the company to attain financial benefits. There are various players involved in insurance fraud ranging from the applicants to the third-party players frauds are committed at all levels which ultimately leads to a loss of trust between the insurers and policyholders. These frauds place a huge financial burden on the insurance company to

[1351] Cambridge Dictionery, available at: https://dictionary.cambridge.org/dictionary/english/insurance (visited on Nov. 13, 2024).

cope with the losses incurred the insurance company has no other choice them to raise the premium which in turn shifts the financial burden to the honest policy holders which creates a distrust in the industry.

In recent times India's insurance sector witnessed upward growth and has been experiencing fierce competition due to the role of private market players which led to major improvements in operational efficiency and innovative products within the sector. The Insurance industry has also undergone major changes in 2022 which have opened a new gateway for the insurance industry to keep up with the latest trends and disruptions. The IRDA is determined to implement its mission "Insurance for all by 2047" with attractive plans and marketing to tackle the challenges [1352] in the sector but it has a long way to go since there is a lack of robust prevention and detection mechanism to address the dynamic insurance frauds.

TYPES OF INSURANCE

In the contemporary Indian financial scenario, insurance is proving to be the indispensable backbone for individuals and businesses alike, imparting enough security to enjoy the comfort of peace of mind while navigating through the complexities of life. There are various types of insurance policies available in India, and these insurance policies have become an indispensable instrument in protecting against unforeseen events and securing financial well-being. However, these insurances can be segregated into 2 types: general insurance and life insurance.

- **General Insurance:**

- General insurance, or non-life insurance, basically provides insurance coverage for losses or damages incurred by an individual, business, or property. In these cases, the insurance company reimburses the losses or damages incurred to the individual, businesses, or property. This type of insurance includes various sub-types; they common sub-types are the following:

- **Health Insurance**

- In this type, the insurance policy covers all types of medical emergencies and hospital charges. This includes charges like inpatient care, critical care, and daycare procedures, as well as pre- and post-hospitalization charges. The following are the different health insurance policies.

- Individual health insurance plan: This insurance plan deals with a single individual and covers their medical emergencies.

- Family health insurance plan: This insurance policy covers the entire family and in case of medical emergencies and often requires a higher premium. Typically, this policy provides coverage for an individual. Spouse, and their children.

- Critical illness coverage: This plan is comprehensively designed to cover critical diseases like kidney failure, heart valve surgery, cancer, heart attack, etc. Basically, it's a policy.

- Senior Citizen Health Insurance Plan: This plan is comprehensive and created for people who are over the age of 60 to cover their imperative medical expenses and also to reduce their financial burden in old age.

- Group health insurance: This kind of health insurance is usually provided by the employer or business themselves and their family members to tackle sudden medical emergencies.

- **Motor Insurance**

- As the name suggests, this insurance provides financial support in case of vehicle accidents. It protects the vehicle from damages, fire, acts of nature, damage to the owner, etc. Apart from this, it also provides damage protection to third parties. This also includes various categories, which are:

[1352] *Growth of the Indian insurance industry with market Size and Trends: IBEF Indian Brand Equity Foundation.* Available at: https://www.ibef.org/industry/insurance-sector-india (visited on Nov. 13, 2024).

 Commercial vehicle insurance: This covers insurers accidental and damage protection for commercial vehicles like taxis, trucks, etc. that are used only for strict commercial purposes.

 Car and Bike insurance: This insurance policy covers private vehicles, such as private cars and bikes, against accidents and damages.

 Travel Insurance

 This is a specific type of insurance plan that an individual or business takes to secure their trips and vacations. It covers losses arising from unknown events occurring during the trips, including, not necessarily in the order of priority, personal accidents, loss of baggage, flight delay, lost luggage, trip cancellation, emergency medical facilities, etc. The beneficiaries can avail of this plan irrespective of travel within or outside India; thus, one can secure the journey from any unforeseeable events and have complete peace of mind. Some of the travel insurance policies are:

 Domestic travel insurance: it covers the losses at a trip within India.

 International Travel Insurance: This covers your outside India trip or vacation.

 Individual & Family Travel Insurance: In the family policy, the whole family goes on the entire journey under one contract, whereas in the individual it covers a single individual.

 Senior Citizen Insurance: The person above the age of 60 can get special protection and assistance under this coverage.

 Student Coverage: specialized insurance cover for students studying abroad, providing support and security throughout their educational journey. They also get discounted plans to reduce their financial burden.

 Home Insurance

 Home insurance, as the name suggests, will protect the house from diverse risks like fire, thefts, earthquakes, floods, vandalism, or any other issues not foreseen. It generally protects the home from physical destruction of the house and the possessions like money, ornaments, kitchen gadgets, etc. But one should take note that if the damage is caused by bad construction or any unauthorized changes done in the house, then the insurance company will not cover for the damages caused. This coverage includes:

 Fire and perils policy: this policy covers the house against any damages caused by natural disasters like storms and earthquakes, as well as man-made disasters like accidents due to fire or riots.

 Structure insurance: this covers the whole house against any damage like permanent installation and additional structures like ceilings or roofs, kitchen accessories, bathroom fittings, sheds, etc.

 Burglary & Theft Insurance: As the name suggests, this insurance covers burglary and theft. It covers assets like appliances, money, and jewelry, among others.

 Landlord insurance: this covers landlords who would lose financially due to rental properties, including the rental income and damages by tenants.

 Fire Insurance

 This insurance policy provides coverage with respect to damages to fire damages on property and personal items. Business entities generally take the same to protect their machines and stocks from fire incidents. However, it is also available for individuals who wish to protect their home and personal belongings. This includes:

 Standard Policy: It provides damages resulting from fire, lightning, explosion, and implosion.

 Comprehensive Fire Policy: the coverage is wider in scope; it not only covers losses against fire but also covers additional risks that arise from peril, such as earthquakes, floods, etc.

 Value policy: this policy compensates a fixed amount irrespective of the property value in case of fire accidents.

 Replacement cost policy: this policy ensures that the compensation is provided according to the depreciation of the property.

 Floating Policy: this coverage is mainly focused on businesses having their offices and factories at different locations. This is a blanket policy that covers all the offices resulting in fire-related damages.

 Consequential Policy: The policy covers the consequential losses that occurred due to fire accidents, such as the loss of income, operating expenses, etc[1353].

 Marine Insurance:

 Marine insurance is an indemnity contract that assures that the goods or cargo are flowing from the origin country to the destination country. That is, any loss or damage caused to ships, cargo, or terminals falls under the context of marine insurance. It was also categorized into different types that include:

 Freight Insurance: this type covers the loss or damage to cargo freight due to perils of the sea or any other causes during the voyage. This insurance can be specific or open according to the policy.

 Liability insurance: this insurance is usually taken by ship owners, operators, managers, or other parties who are predominantly involved in marine activities. It covers legal liability for bodily injury or asset damage to third parties. It also covers the insured and their agent's negligence and fault during the maritime operations.

 Hull insurance: this provides coverage to the hull and machinery of a vessel and includes loss or deterioration through perils of the sea or other causes.

 Cargo insurance: As the name suggests, it covers the loss and damages caused to the merchandise shipped by the sea due to perils of the sea or any other unforeseeable causes[1354].

● **Life insurance**

● Life insurance is an agreement between the insurer (an insurance company or the government) and the insured (the policyholder). In return for the premium payments, the insurer promises to pay a specified sum of money to the beneficiary, as named in the contract, upon the death of the insured. This payment is called the death benefit. This insurance provides financial security and peace of mind to the beneficiaries in case of the unfortunate demise of the insured. This has various types that include:

 Term insurance plan: this coverage is usually for a fixed period of time, such as 10, 20, or more years as per the term. This policy is usually cheaper than other types because it does not carry any maturity or cash value benefits.

 Endowment Policy: There is only a slight difference between the term and endowment policy, that is, it comes with the additional benefit that the policyholder can receive a lump sum amount in case he survives till the end of the policy; the rest of the terms and conditions are the same as the term policy.

 Unit-Linked Policy: This is a comprehensive policy that provides life coverage as well as helps to build wealth. Usually the premium paid to this policy is segregated into two for the above-mentioned purpose. The policyholder can also partially withdraw the amount during the term.

 Money Back policy: as the name suggests, this policy comes with many perks known as survival benefits, which can be claimed proportionally over a period of time rest, all the same as endowment policy.

[1353] Avneet Kaur, *What are the Different Types of Insurance in India,* Available at: https://www.etmoney.com/learn/insurance/different-insurance-types-in-india/,(visited on Nov. 13, 2024).

[1354] *Types of Marine insurance,* Available at: https://www.tataaig.com/knowledge-center/marine-insurance/types-of-marine-insurance, (visited on Nov. 13, 2024).

 Whole life policy: this policy covers the lifetime of the policyholder, unlike other policies that end at a specific period of time. In addition to this, it also includes various survival benefits, the option to withdraw the partial insured sum, and the option to borrow the sum against the policy.

 Pension Plan: this coverage secures the policyholder in the form of income or lump sum depending on the terms of the contract. Usually the amount is based on the premium accumulated over the years[1355].

IDENTIFYING DIFFERENT INSURANCE SCAMS

Insurance fraud is an act of deception perpetrated with the view of obtaining an illegal advantage from the insurance policy. The fraudster may either be a policyholder, claimant, intermediary, or service provider. Whether it is staging accidents, falsifying claims, or exploiting loopholes, insurance fraud poses significant challenges that require vigilance and informed action. The various types of insurance scams are

- Application fraud: in this the policyholders misrepresent the fact or the information in the application to get cheaper premiums with higher protection.
- Claims fraud: obtaining deceptive claims, for instance, by staging an accident or injury to collect the insured amount from the insurer when the need arises.
- Forgery: the alteration or creation of insurance documents, for example, the change of the beneficiary of the policy or up the policy amount without the consent of the policyholder.
- Phoney Policy Fraud: This includes the sale of counterfeit insurance policies. The buyer pays a lot of money only to be found helpless when the disaster strikes.
- Identity theft: stealing personal information to file fraudulent claims or obtain policy benefits unjustly.
- Premium Deviation: in this, the agents of the insurance company accept the payments but will not forward the payment to the insurance company, causing the policy to lapse.
- Ghost Brokers: fraudsters posing as legitimate insurance agents and selling invalid policies.
- Misrepresentation of Coverage: Agents misrepresent the terms and conditions of a policy to make it appear more attractive than it actually is[1356].

THE RIPPLE EFFECT OF INSURANCE SCAMS

Insurance scams lead to significant financial losses and emotional distress for the policyholder and the insurance company. It is high time that both the insurance company and policyholders should stay vigilant in order to tackle the upcoming challenges in the current trends.

- Expensive premiums: when the fraudsters exploit the system, it actually results in the insurance company paying out more towards the claim. They've got to absorb all these extra costs somehow, so they're often left with no choice but to hike the premiums. This means that even the honest policyholders end up paying more for their insurance coverage, which isn't fair to those who play by the rules.
- Loss of trust: Every time a fraudster succeeds in his scam, it erodes the people's trust in the insurance agencies. Policyholders start to question whether the insurance industry is fair and ethical. This skepticism may lead to fewer people purchasing an insurance policy or investing in coverage, hence piercing the foundation on which the industry relies.
- Resource Drain: Detecting and combating fraud takes a lot of time, money, and manpower. Some of these resources could instead be used to strengthen customer service or reduce premium rates. Combating fraud

[1355] *Life Insurance – Benefits & Types,* Available at: https://cleartax.in/s/life-insurance, (visited on Nov. 13, 2024).

[1356] *Common types of insurance life insurance frauds in India,* Available at: Common Types of Life Insurance Frauds in India, (visited on Nov. 14, 2024).

comes at a cost and can be a drag on the overall efficiency and effectiveness of the industry[1357].

INSURANCE SCAMS UNVIELED: REAL LIFE SCAMS

In the realm of insurance, the insurance fraud poses fearsome challenges for both the insurers and policyholders. In their most complex forms, they range from staged, elaborate accidents to ingenious claim falsifications. Let us discuss a few insurance frauds in India

- **.The fake death claim in Maharashtra**
- A 30-year-old man faked his own death and involved his friends in filing a fraudulent insurance claim of Rs 2 crore. The scam involved creating fake identities and documents to support the claim. The accused was Taksal, who submitted fake documents and proposed to purchase an insurance policy in LIC worth 8 crore, but after thorough scrutiny, LIC issued him a 2 crore policy. He paid the premium for 1 and a half years, and suddenly a claim was made that he had died in a road accident. The insurance company officials were surprised that within one and a half years a claim had been made and started their internal probe. Later, the insurance company found the accused lies, and the police have arrested Dinesh Taksal and his two friends for helping him make the bogus claim[1358].
- **Mumbai women faked death twice to claim insurance**
- Based on the police FIR, Kanchan Pai, also known as Pavitra, meticulously orchestrated a fraudulent scheme by purchasing insurance policies from multiple companies, including Max Life, Bharti AXA, HDFC, and Future Generali. The total coverage from these policies amounted to approximately Rs 1.1 crore. After securing the insurance policies, Kanchan's family executed the next phase of their plan. They falsely reported Kanchan's death, creating and submitting counterfeit death and cremation certificates to the respective insurance companies. These fraudulent documents were intended to substantiate the claim and facilitate the disbursement of the insurance benefits. The police investigation later uncovered the deceit, revealing the sophisticated and premeditated nature of the scam. This case underscores the lengths to which fraudsters will go to exploit the insurance system, highlighting the critical need for thorough verification processes and vigilant oversight by insurance providers[1359].
- **The Haryana SIT case**
- In this elaborate scam, a Special Investigation Team (SIT) was formed to investigate fraudulent insurance claims made for deceased cancer patients. The SIT received 208 complaints from 11 insurance companies over a span of three months. The investigation led to the arrest of several individuals, including advocate Pawan Kumar Bhoria, who was identified as the mastermind behind the scam. The scam involved a network of accomplices, including doctors, hospital staff, and even police officers who helped fabricate documents and post-mortem reports. The scam not only resulted in significant financial losses for the insurance companies but also highlighted the vulnerabilities in the system that allowed such frauds to occur[1360].
- **Delhi fake insurance policy case**
- The cyber cell in Delhi busted a gang that created fake bank accounts and used them to collect money from victims. They would call potential customers, offering them attractive insurance policies and then instructing them to deposit money into these

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[1357] *Battle Against Insurance Frauds in India,* Available at: https://www.idfy.com/blog/battle-against-insurance-frauds-in-india/, (visited on Nov. 14, 2024).
[1358] Ahemd Ali, *30-year-old-man, 2 others held in Rs. 2 Crore insurance fraud case in Maharashtra,* Available at: https://timesofindia.indiatimes.com/city/mumbai/30-year-old-man-2-others-held-in-rs-2-crore-insurance-fraud-case/articleshow/98504105.cms, (visited on Nov. 15, 2024).
[1359] Surbhi Gloria Singh, *Insurance Fraud Decoded: How a woman Faked death twice to claim Rs. 1.1 cr,* Available at: https://www.business-standard.com/finance/personal-finance/insurance-fraud-decoded-how-a-woman-faked-death-twice-to-claim-rs-1-1-cr-124070500805_1.html, (visited on Nov. 15, 2024).
[1360] Manvir Singh, *Haryana fake insurance scam: SIT gets 208 complaints from 11 firms,* Available at: Haryana fake insurance scam: SIT gets 208 complaints from 11 firms | Gurgaon News - Times of India, (visited on Nov. 15, 2024).

fake accounts. The scam affected nearly 100 people, with individual losses ranging from Rs 19 lakhs to Rs 85 lakhs. The case came to light after a victim reported losing Rs 2.8 crore over a period of seven to eight years. The police investigation revealed a complex network of accomplices, including doctors and police officers who helped fabricate documents[1361].

PREVENTION AND DETECTION OF INSURANCE FRAUDS

- **Prevention Measures**

- Advanced Technology: Insurance companies are increasingly using artificial intelligence (AI) and machine learning algorithms to detect patterns and anomalies that may indicate fraudulent activities.

- Regulatory Framework: The Insurance Regulatory and Development Authority of India (IRDAI) has issued comprehensive guidelines to establish a robust fraud monitoring framework. This includes setting clear standards for fraud detection and prevention, ensuring robust internal controls, and promoting transparency in reporting and investigations.

- Ethical Culture: Promoting an ethical culture within insurance companies and among policyholders is crucial. This involves educating employees and customers about the consequences of fraud and encouraging ethical behaviour.

- Incentives for Reporting: Offering incentives for reporting fraudulent activities can help in early detection and prevention.

- Public Awareness Campaigns: Insurance companies and regulators conduct public awareness campaigns to educate policyholders about the risks of fraud and how to avoid being scammed. These campaigns often include information on identifying fake agents, understanding policy terms, and the importance of reporting suspicious activities.

- Verification Processes: Implementing stringent verification processes during policy issuance and claim settlement. This includes verifying customer identities, medical histories, and financial backgrounds to prevent fraudulent applications and claims.

- Data Analytics: Leveraging big data analytics to monitor transactions and identify unusual patterns that could indicate fraudulent activity. By analyzing large volumes of data, insurers can detect potential fraud early and take preventive actions.

- Industry Collaboration: Insurance companies collaborate through industry associations and regulatory bodies to share information about known fraudsters and emerging fraud trends. This collective effort helps in building a stronger defense against fraud[1362].

- **Detection Measures**

- Red Flag Indicators (RFIs): Implementing RFIs to identify potential fraud risks and requiring further investigation.

- Thorough Investigations: Conducting detailed investigations into suspicious claims and activities to uncover fraudulent practices.

- Collaboration with Stakeholders: Working closely with law enforcement, healthcare providers, and other stakeholders to gather information and evidence related to potential fraud.

- Annual Risk Assessments: Conducting regular risk assessments to identify vulnerabilities and implement corrective measures.

- Fraud Detection Units: Many insurance companies have dedicated fraud detection units that specialize in investigating suspicious claims. These units are equipped with forensic tools and expertise to uncover fraudulent activities.

[1361] *Gang that sold fake insurance policies busted in Delhi,* Available at: Gang that sold fake insurance policies busted in Delhi | Delhi News - Times of India, (visited on Nov. 15, 2024).

[1362] Akash Pandey, *Battling against Indurance Fraud in India: Types, Prevention , and Innovations,* Available at: Battle against Insurance Fraud : Types, Prevention, & Innovations, (visited on Nov. 17, 2024)

● Third-Party Audits: Engaging third-party auditors to conduct independent reviews of claims and policies can help identify and prevent fraud. These audits provide an unbiased assessment and help in maintaining transparency.

● Policyholder Verification: Regular verification of policyholders' information and updating records to ensure accuracy. This helps in detecting any discrepancies that may arise over time, indicating potential fraud.

● Use of Blockchain: Implementing blockchain technology for maintaining immutable and transparent records of transactions. Blockchain can enhance the security and traceability of insurance claims, making it harder for fraudsters to manipulate records[1363].

CONCLUSION

Insurance fraud, a persistent challenge in India, has far-reaching implications for the economy and society. This paper has explored the multifaceted nature of insurance fraud, delving into its various types, identifying common scams, and analysing its detrimental effects. Real-life examples have highlighted the creativity and audacity of fraudsters, emphasizing the urgent need for effective prevention and detection measures.

A multi-pronged approach is essential to combat insurance fraud. Strengthening regulatory frameworks, enhancing data analytics capabilities, promoting public awareness, and fostering collaboration between insurers, regulators, and law enforcement agencies are crucial steps. By implementing these strategies, India can significantly mitigate the risks associated with insurance fraud and protect the interests of honest policyholders.

As the insurance industry in India continues to grow and evolve, so too must its approach to fraud prevention and detection. By embracing technological advancements, such as artificial intelligence and machine learning, insurers can enhance their capabilities to identify and mitigate fraudulent activities. Moreover, fostering a culture of transparency, accountability, and ethical conduct within the industry can further strengthen its resilience against fraud. By taking proactive measures and working together, we can build a more secure and sustainable insurance ecosystem for the future.

[1363] Id.