Sources of Reputational Risk in Claims and Counter-Fraud

Introduction

The most serious reputational risks that insurers will face over the next three years lie in claims and counter fraud. From developments I read about, and from practices I'm told of, I believe these risks are not fully appreciated by insurers, and therefore are not being properly assessed and controlled. This paper does two things: it outlines a series of developments and practices that together form the backbone of this reputational risk, and it suggests steps that insurers can take in response.

Realisation of these Reputational Risks

These reputation risks will be realised in one of two ways. They could arise through questions being raised in relation to individual claims that 'strike a chord' with a community or the wider public. Or a consumer group could accumulate evidence across a number of cases and put their concerns into the public domain.

Some may compare these triggers to the pricing super-complaint and while there are similarities, there is one crucial difference. It is that pricing is essentially a one-to-many situation (one risk receiving several quotes), while claims is essentially a one-to-one situation (my claim with my insurer). This difference will cause these reputational risks to be realised more quickly from a smaller evidence base.

Sources of Reputational Risk in Claims and Counter Fraud

Set out below is a list of those claims and counter fraud developments which insurers could find themselves having to justify in a public forum that is outwith of their immediate control. They are sources of risk around which the sector could struggle to counter the weight of public concern.

a) the direct or indirect use of credit data in the assessment and settlement of claims;
b) the use of data to assess the likelihood of a person having spent convictions;
c) the use of genetic data in the assessment of injury settlements;
d) the number and type of questions being asked that relate to the underwritten risk;
e) the direct or indirect use of data relating to complaints, at either an individual or group level;
f) the use of data about the propensity of a policyholder to cause administrative burden;
g) the use of financial, retail or social data that indicates a person's physical or mental health;
h) the use of financial, retail or social data to assess a person's financial wellbeing;
i) the use of data that directly or indirectly suggests a claimant's protected characteristics;
j) the use of direct or indirect data relating to human state sensing;
k) the use of analytics for human state prediction;
l) the use of analytics to assess a claimant's character or predict their behaviour;
m) the use of data whose provenance record is incomplete or unclear.

Governance and Culture

If reputational damage is an outcome of such sources of risk, then the risks themselves are outputs of a firm's management and governance systems. Questions raised about the risks will result in questions being raised about the systems, for example in relation to objectives, performance, culture and audit. All of these are the responsibility of senior management functions, with their associated accountability obligations.

Risk Profiling

Profiling these risks according to significance/likelihood and maturity/capability will generate a range from reputationally difficult to catastrophic. However, perhaps the greatest risk is a firm not seeing or understanding the risk in the first place. For example, risks 'j and k' are emerging but under-appreciated by the sector, while risks 'b and i' are mature, with no room for under-appreciation.

Some firms will question why some of these risks are listed in the first place – the 'we are not like that' response. Yet when I am reliably informed of practices that, if put in the public domain, would be reputationally catastrophic for an insurer, I believe insurers in overall terms need to be able to evidence their own distance from such practices.

Suggestions for 2021

Every insurer has systems to manage risk. What the pricing review signalled however, were issues around whether those systems were complete enough, thorough enough and perceptive enough in relation to ethical risks like fairness. Those same questions need to be applied to claims and counter-fraud processes. I know they are already being raised by consumer representatives in the US insurance market, with reviews by regulatory organisations initiated in 2019. I am certain that the FCA is monitoring the issues identified in those reviews.

So where should insurers take a closer and more careful look? Here are some suggestions for claims and counter fraud functions to consider…

- how risks like those listed above are referenced within existing risk assessment processes;
- the extent to which those risk assessment processes incorporate challenge and debate;
- the suitability and efficacy of the controls used for reputational risks;
- the extent of influence of the firm's conflict of interest policies;
- the scope and strength of customer voice processes;

I have deliberately talked here about reputational risk rather than conduct risk. The latter has a tendency to be 'corporate centric', while the former is 'customer centric'. This different centricity influences perceptions. The recent pricing review illustrates the impact that difference can have.

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