

Forensics on front lines in war on insurance fraud

Expanding practice

By Derek Lundy

TORONTO—Forensic accountants play an increasingly important role in documenting, proving and reducing insurance fraud.

Insurance adjusters and lawyers have long used accountants to document clearly fraudulent claims.

However, many insurance companies, concerned about huge losses to fraud—about \$1.3 billion a year in property and casualty (P&C) lines alone—have recently set up their own fraud-busting Special Investigation Units (SIUs).

The SIUs, staffed mostly by ex-commercial crime unit police offi-

cers, work proactively to reduce fraud by investigating all claims above a certain amount, as well as suspicious claims.

Once they have established the possibility of fraud, the SIUs (or insurance counsel, if the claim has already progressed to the litigation stage) turn to forensic accountants for the hard proof.

"It's just starting to happen," said Ted Baskerville of Lindquist Avey MacDonald Baskerville. "Our role up to now has always been to deal with claims that are overstated—or appear to be—or with arson, or staged theft."

But proactive investigation to prevent payouts on fraudulent claims is increasingly important, Baskerville said. "As the insurers become more diligent in ferreting this out, more fraud will rise to the surface. And there will be more involvement by forensic account[ants]."

In suspected arson or staged theft cases, Lindquist Avey's forensic specialists determine the insured's possible financial motive by looking at details of ownership or management, historical financial results, past and future obligations, profitability and cash flow.

They prepare a general profile of the company, including its relationship with creditors, and try to answer the following: Do owners have financial needs they can't satisfy legitimately through the business? What do the owners withdraw from the company, or how do they benefit from it in other ways?

In cases of possible theft, it's important to look at

other businesses owned by the insureds, maybe they're trying to run down one business for the benefit of another.

The growing use of electronic document storage systems can have unexpected benefits for the forensic sleuth.

According to Ken Gibson of Mintz & Partners in Toronto, "people sometimes don't realize what they have stored." Many systems automatically back up computer communications like e-mail.

Aspiring fraud perpetrators may destroy the e-mail record in their own computers, but forget, or don't know, that investigators can read the backup disk.

Gibson typically deals with commercial damage claims—theft for example, where inventory appears to be gone, but there's little evidence of a break-in.

In those sorts of cases, he said, investigators try to establish whether anything is in fact missing and, if so, whether it had any real value.

Often, a line of goods, such as video or electronic products, isn't selling, and then it allegedly disappears.

The forensic investigator looks at sales figures, dealings with suppliers, and interviews employees or others involved.

Fraud by employees, leading to fidelity bond claims, is a growth industry, according to Ivor Gottschalk of Ernst & Young's Toronto-based forensic and litigation accounting group.

Often, an employee in a company's purchasing department orders an unnecessary or non-existent material or service, and gets a kickback for the order.

Other types of fraud include setting up fake suppliers, fictitious

employees on a payroll, or phony accounts payable.

"People are getting more and more creative," said Gottschalk.

"We're seeing fraud on the other side, where there's actually fraud in collusion with customers. Companies will normally control their purchasing departments quite closely because they're aware that purchasing is very vulnerable to outside forces.

"But generally, you wouldn't think of your accounts receivable clerk as being in a position to benefit somebody outside the company, writing off invoices to customers, for example."

Many forensic accountants are members of the Association of Certified Fraud Examiners, based in the U.S., but with more than 900 Canadian members in nine chapters.

According to Toronto Chapter president, Ken Froese, who is also a partner at Doane Raymond, the association's goal is to provide training to people in the fraud prevention and detection area.

The association offers courses, seminars and correspondence courses, and holds an interactive, computer exam every six months. About two-thirds of its members are commercial crime unit police officers, SIU employees, private investigators, and internal auditors, with the balance hailing from public accounting practice.

Many forensic accounting firms, or groups within firms, employ former police officers with expertise in everything from surveillance to undercover work to specialized investigations.

KPMG Security and Investigation boasts the largest such complement, with ten ex-officers across the country, including a former RCMP commissioner, said James McAuley,

a partner in the firm. KPMG's largest volume of work involves automobile insurance claims—one of the most common kinds of fraud. Its forensic accountants assess income loss benefits in relation to the insured's overall financial position and prospects.

McAuley is also a member of the Canadian Coalition Against Insurance Fraud, which was set up in 1994 by the Insurance Bureau of Canada (IBC).

The coalition's members also include IBC member companies (P&C insurers) police and fire organizations, and the Canadian Consumers' Association.

The coalition's aims are to make Canadians aware of the high cost of insurance fraud, and to lobby governments for legislative changes to facilitate fraud prosecutions.

The oldest insurance fraud fighter in Canada is the Insurance Crime Prevention Bureau (ICPB). Formed in 1923, the ICPB is funded by P&C insurers across the country, and represents close to 95 per cent of premiums written.

As well as investigating suspicious claims on request from member companies, the ICPB also maintains a database of fraudulent claim investigations.

This is particularly useful for insurance company SIUs as they perform their routine large-volume monitoring of claims, although forensic accountants can also consult the ICPB if necessary.

"In doing this kind of work, it helps to have a somewhat skeptical nature," said Ken Gibson.

The benefit of that skepticism, and forensic accounting's specialized techniques, will be fewer fraudulent claim payouts, reduced costs for insurance companies, and lower insurance premiums for everyone. □



Gibson: Some don't know what they have.