An Investigation of Determinants and Strategies for the Deterrence of Insurance Fraud

This paper explores the determinants of individuals’ attitudes toward the fraudulent insurance applications and claims, and provides strategies for the deterrence of insurance fraud.

To this end, a face-to-face survey of 803 individuals is conducted to assess public perception of unethical insurance behaviors and evaluate personal knowledge of and experience with insurance fraud. 35.8% of respondents say that padding claims is acceptable while 50.6% say that padding claims is common. 37.5% say they believe insurance payments are reasonable, and 48.1% say they believe insurance rates are higher as a result of fraud.

Using individual responses to the survey of public attitudes toward insurance fraud, and building on the socioeconomic literature on attitude formation, the paper formulates and tests hypothesis regarding consumers’ approval or disapproval of fraudulent acts such as padding claims and misrepresenting incident to obtain coverage for a loss. The analysis shows that one’s own attitudes toward insurance fraud are related to their perceptions of the probability of being detected, the prevalence of insurance fraud, the degree of satisfaction on payments, and their insurance knowledge.

Based on the analysis, I recommend that i) an anti-fraud law should be established; ii) companies view the claim process as an opportunity to build credibility with insureds, which likely help to lower their tolerance for fraud; iii) the insurance industry develop an intensive public information campaign to educate the public about the nature
and extent of insurance fraud and convince the public that insurance fraud is not a victimless crime; iv) the industry increase the number of special investigators to discover fraudulent applications and claims; and v) the permanent body to investigate and prosecute insurance fraud should be established.