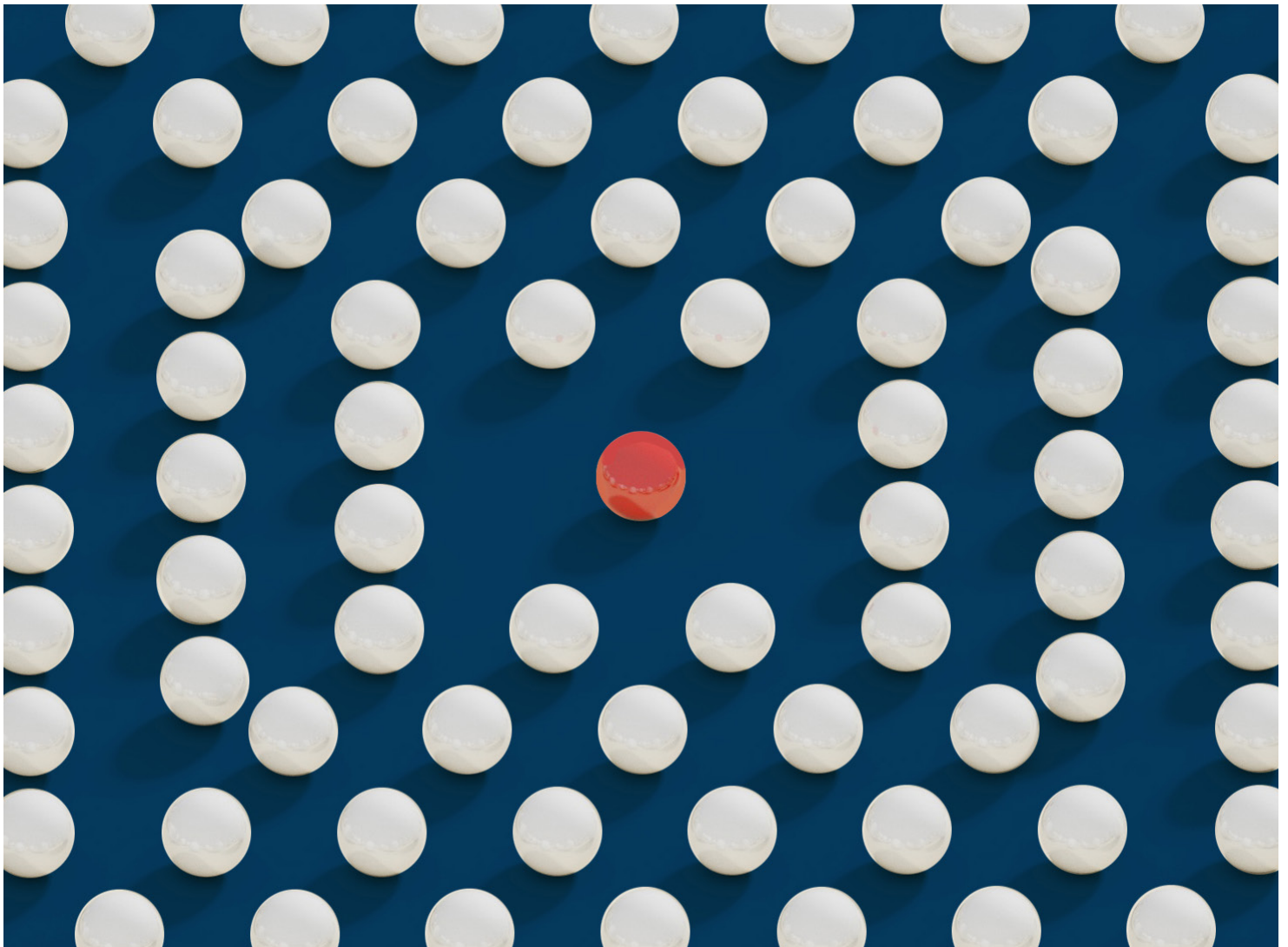


INDIA PULSE SURVEY - JULY 2020

# The COVID-19 Aftermath: Risk & Compliance Priorities Among Insurers



## Foreword

COVID-19 has led to unprecedented changes in socio-economic conditions globally. Needless to say, organisational priorities have reformed across the board and key objectives and focus areas are being re-strategised for the post COVID-19 environment.

The insurance sector in particular has borne the brunt of the pandemic – with increased reliance on insurance cover on account of interruptions to business, health hazards and uncertainty, newer fraud modus operandi, and cybersecurity concerns.

Against this backdrop, we approached select risk and compliance professionals within the sector through a

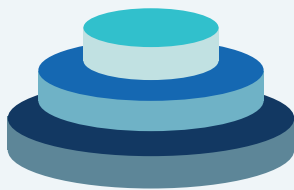
survey to understand how this black swan event has impacted their near and mid-term priorities.

Risk and compliance professionals continue to see significant pressure in sales and operations, leading to increased financial crime risks. Over 90 percent of the respondents indicated an increased probability of exposure to claims fraud and data leakage, and increased operational burden to investigate and close alerts/suspicious cases. Insurers expect peer group information sharing, formation of working groups to disseminate new typologies, and regulatory guidelines around areas such as fraud monitoring to enable stabilisation over the medium-term.

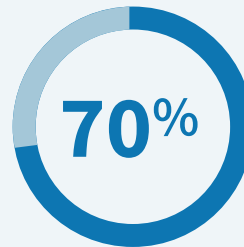


## Immediate risks and vulnerabilities

### Top 3 vulnerable business areas



- Sales
- Operations
- Customer services



Nearly 70 percent of the respondents believed that the pandemic was bound to have maximum impact on sales operations within insurers.

The other areas of concern highlighted by insurers were **core operations and customer services**, with more than **67 percent** of respondents indicating that these were most vulnerable, following sales.

### Our insight

While most insurers have revisited their sales strategies and launched new operating models to facilitate digital sales, management focus has naturally stood towards addressing immediate customer requirements, leaving these new plans and strategies largely untested.

The overall environment of fear and panic could likely result in mis-selling and passage of incorrect information to customers. Instances of 'ghost broking' have already surfaced wherein fraudsters have been pretending to be legitimate insurers and brokers and falsely offer travel or business interruption insurance to unsuspecting customers. The Insurance Regulatory Development Authority of India (IRDAI) and insurers have collectively issued notifications to warn customers of such scamsters.<sup>1</sup>

Given that many of the activities within these areas are either outsourced or dependent on external/third-parties, the lockdown and corresponding restrictions have had a significant impact from a risk and control perspective:

- There is a likelihood of insurers continuing to function with significantly reduced on-the-ground manpower in the near-term.
- Third-parties such as Third Party Administrators (TPAs), customer service executives and medical examiners have been adopting a work from home policy, thereby putting into question the adequacy of reliable controls within an offline work environment.

- Limited manpower and the offline nature of work is likely to have an impact on maker-checker controls within processes, particularly those which are not system-driven.
- Sensitive customer information would now be accessible by employees outside of business premises, which invariably results in a greater threat of data breach and warrants increased security measures.
- Conducting medical tests and due diligence have either been deferred or performed offline to the extent feasible.
- The complaint resolution guidelines issued by IRDAI is also bound to put significant pressure on insurers which could likely have an impact on the quality of the resolution itself.

### Regulatory perspective

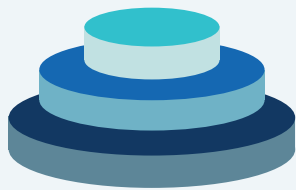
*IRDAI has asked insurers to take precautionary measures to address cyber risks and to mitigate such risks as soon as they are identified. It has also asked insurers to educate their staff, through emails and other modes, of possible cyber risks and the associated safeguards to be taken by the staff while working from home.<sup>2</sup>*

<sup>1</sup> IRDAI press release: [https://www.irdai.gov.in/ADMINCMS/cms/fmGeneral\\_Layout.aspx?page=PageNo4102&flag=1](https://www.irdai.gov.in/ADMINCMS/cms/fmGeneral_Layout.aspx?page=PageNo4102&flag=1)

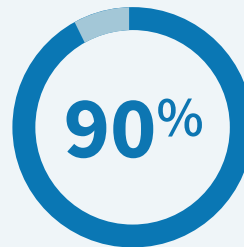
<sup>2</sup> COVID-19 related instructions: [https://www.irdai.gov.in/ADMINCMS/cms/whatsNew\\_Layout.aspx?page=PageNo4081&flag=1](https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo4081&flag=1)

## Perception around product-level fraud risks

### Top 3 areas vulnerable to fraud risks within products



- Health (including OPD)
- Business interruption
- Cyber insurance



of the respondents indicated that there will be an increased probability of exposure within the areas of claims fraud and data leakage.

### Our insight

We gathered an analogous response with more than 90 percent of the respondents indicating an increased probability of exposure within the areas of claims fraud and data leakage. Globally, insurers are noting different typologies of cyber and phishing attacks on unassuming customers. The general perception is bent towards the probability of an increase in cyber incidents, thereby having a corresponding impact on claims.

Interestingly, most insurers jointly opined that agent frauds and employee misconduct were likely to have a lower occurrence ratio vis-à-vis cyber and claims related matters.

Theoretically, health check-ups, precautionary treatments and medication, and increased focus on COVID-19 testing is bound to increase the quantum of health and OPD claims.

There is currently limited visibility of COVID-19 hospitalisation costs; with passage of time, we may face the unearthing of over-invoicing scams from both – hospitals and pharmaceutical agencies.

This, added to regulatory pressure and the ongoing lockdown, is also bound to place limitations on the claims investigation and review procedures.

Ironically, a recent report<sup>3</sup> suggests that only 5,600 COVID-related health claims have come to insurers as of 2 June, 2020. This indicates that only 3.1 percent of the nearly 180,000 cases diagnosed in India have opted for insurance cover. Such low-slung numbers could perhaps be attributed to possible inadequate coverage vis-à-vis high treatment costs and the initial apprehension around coverage of COVID-19 within insurance policies. Possible reasons for such low-slung numbers could likely be due to an inadequate coverage vis-à-vis high hospitalisation costs.

While most businesses have been disrupted over the last couple of months, it is worth noting that business interruption policies may not cover loss of profits unless there is actual damage to assets that have resulted into a loss of profits.

Interestingly, events coverage and crop insurance did not feature in the top three list. Many events like the IPL, movie release schedules and weddings stand cancelled among others, and the lockdown has also disrupted supply chains for delivery of fruits, vegetables and grains. While the crop insurance scheme covers losses arising from natural calamities, it is to be seen how losses incurred on account of this pandemic will be covered and claimed.

### Regulatory perspective

**IRDAI, in one of its more recent circulars, has mandated that COVID-19 claims are to be processed expeditiously by insurers. IRDAI has encouraged insurers to adopt “simplified/expedited claim procedures” for such cases. All COVID-19 claims also need to be reviewed by a claims review committee prior to repudiation.<sup>4</sup>**

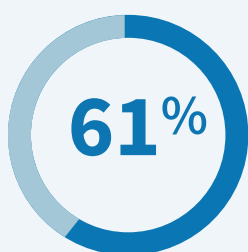
**Additionally, IRDAI<sup>5</sup> has also mandated that other claims are to be processed within the prescribed period by making special efforts.**

<sup>3</sup> <https://indianexpress.com/article/business/only-5600-health-insurance-claims-coronavirus-6438004>

<sup>4</sup> Guidelines on handling of claims reported under Corona Virus [https://www.irdai.gov.in/ADMINCMS/cms/whatsNew\\_Layout.aspx?page=PageNo4057&flag=1](https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo4057&flag=1)

<sup>5</sup> COVID-19 related instructions [https://www.irdai.gov.in/ADMINCMS/cms/whatsNew\\_Layout.aspx?page=PageNo4081&flag=1](https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo4081&flag=1)

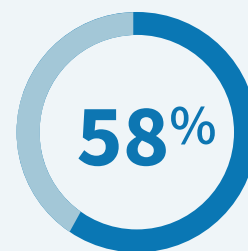
## Post COVID-19 priorities



of the respondents opined that their organisation was likely to take at least 1 to 2 quarters to recover from the pandemic.



of the respondents highlighted that clearance of alert backlogs and the use of advanced analytics were their key priorities post COVID-19.



of the respondents expressed that there will be significant pressure on fraud monitoring post COVID-19.

### Top 3 activities insurers will focus on



- Review and clear backlog of suspicious cases and claims identified
- Leveraging advanced analytics to optimise efforts and results
- Review of customer complaints to identify potential vulnerabilities

### Our insight

Risk and compliance functions have had to modify their approach in alignment with the organisation's overall revival strategy and budgetary allocations. These developments have, unsurprisingly, impacted priorities within these functions which are bound to be staggered along these junctures:

#### Near-term priorities

One of the more near-term priorities amongst teams is the use of advanced analytics and technology platforms to perform more effective reviews, both qualitatively and from a coverage perspective.

The pandemic has resulted in the health insurance segment being the only segment other than fire insurance, to report a growth of 6.2 percent in the month of April, 2020.<sup>2</sup> This surge in customer base also makes it imperative for insurers to leverage relevant data points for the purpose of analytics to identify potential vulnerabilities basis customer profile and other demographic information.

In addition, risk and investigation teams are also keen on analysing customer complaints from the lockdown period, to identify potential exposure to misconduct and fraudulent activity.

#### Immediate priorities

While organisations, including risk and compliance teams, have managed to implement business continuity processes, the common belief is that there will be excessive operational burden on teams to investigate and close pending and ongoing cases.

Most investigating teams are currently leveraging offline methods such as desktop searches and public domain profiling to facilitate investigation procedures, given the restrictions in conducting 'field' investigations. Needless to say, significant effort is expected to be invested in revisiting such cases and closing them after performing the necessary due-diligence and investigative procedures along with audit trails.

The expected increase in the quantum of claims also results in an increased effort in reviewing, investigating and processing such claims – which has turned out to be one of the key priorities from an immediate response perspective.

## Long-term priorities

Insurers are expecting to leverage peer-group information for the purpose of fraud review and monitoring.

Most of the professionals believed that sharing of information between insurers would help not only with quicker resolution of cases, but also in performing peer-group benchmarking to identify newer fraud typologies that may have emanated during the lockdown period and thereafter.

The Indian Insurance Bureau (IIB) and General Insurance Council (GIC) have also created working groups and data expert committees to commence projects on creating data platforms across insurers for the purpose of leveraging data points and fraud repositories to perform advanced analytics. Initiatives such as these are sure to support insurers with performing qualitative analytics and benchmarking.



## Expected impact on fraud-related regulations

The IRDAI has been prompt in issuing operational guidelines to insurers on a frequent basis. In continuation of these guidelines, given the impact of COVID-19 on overall reputation and probable financial outflow, there is an increased expectation around the issuance of a new set of fraud related guidelines by the regulator.



### Digital operations

- Most insurers have been synchronous in their ask for guidelines covering the area of digital operations, including sales.
- The pandemic and corresponding lockdown has resulted in the creation of newer models of digital operation, the effectiveness of which has not necessarily been tested.
- Most organisations expect these digital operations to continue, which inherently warrants detailed directives and guidelines to ensure adequate coverage from fraud risks.



### Investigation process

- Guidelines on sharing details of COVID-19 patients amongst insurers to expedite the claim resolution process.
- Directives on channelling and leveraging information from the peer group to minimise the need for field investigations.



### Remote working

- Framework on addressing fraud risks and vulnerabilities within business continuity plans.
- Specific policies around data governance and cybersecurity.



### Other initiatives

- Setting up of working groups either centrally, or through IIB and the insurance councils to develop and publish upgraded fraud typologies, particularly in the post COVID-19 environment.
- Propose the development of a legislative act to address and combat insurance fraud.

## Conclusion

COVID-19 has impacted the world at large in unimaginable ways. The insurance industry, in particular, is going to be under tremendous pressure to process pay-outs and address customer queries in the times to come. It is, however, important to ensure that fundamental controls are not compromised in the run to normality.

It is often noted that fraud incidents multiply rapidly after a catastrophe, when public focus shifts from fear of the unknown (the disease, in this case) to fear of the known (financial anxieties). It is, therefore, imperative that matters of risk and compliance are given their due importance in the post COVID-19 environment by regulators and insurers alike – because when it comes to matters of fraud, a penny saved is a penny earned.

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