Prepared Statement by
Insurance Information Institute Chief Executive Officer
Sean Kevelighan

United States Senate Committee on Commerce, Science, and Transportation
Subcommittee on Consumer Protection, Product Safety, Insurance, and Data Security

Hearing on
"Insurance Fraud in America: Current Issues Facing Industry and Consumers"
Washington, D.C., Thursday, August 3, 2017

Chairman Moran, Ranking Member Blumenthal, and committee members. I appreciate the opportunity to address you today about the current issues facing the insurance industry and consumers when it comes to insurance fraud in America.

My name is Sean Kevelighan and I am the Chief Executive Officer of the Insurance Information Institute (I.I.I.). The Institute is an industry-funded consumer education organization. We explain what insurance does, and how it works, to consumers, the media, and public policymakers.

The I.I.I.'s members include the nation's largest auto, home, and business insurers. While much of our work focuses on property/casualty "(P/C)" insurers, nearly 70 percent of our members also offer life insurance solutions. Today I will focus on the insurance fraud trends P/C insurers are seeing, and how insurers and consumers can protect themselves against these crimes.

In its role as the U.S.'s economic first-responders, P/C insurers paid out more than $327 billion in 2015 to settle claims. Two years ago, many of these claim payout dollars went to auto repair companies and building contractors. This will undoubtedly be the case in 2017 as well. Insurers provide the capital infusion that allows consumers to recover after an accident, a fire, a windstorm, or another incident that causes either property damage or an injury.

Insurance companies recognize the overwhelming majority of claims they receive are legitimate, and these claims are paid promptly. U.S. consumers also recognize this fact. Indeed, in 2016 U.S. home insurers scored their highest-ever satisfaction rating among consumers who filed a claim, according to a J.D. Power survey. Insurers were given a score of 859 on a 1,000-point scale.

The relationship between insurers and consumers is one of trust. Consumers trust that insurers will help them re-build when catastrophe strikes, while the insurer trusts that the reported information provided by the consumer is honest. Unfortunately, whenever there is an incident of fraud it has damaging consequences for the consumer and insurance company alike. In fact, Deloitte estimated in a 2012 report that P/C insurers paid around $30 billion annually—nearly 10 percent of their total claim payouts—in fraudulent auto, home, and business insurance claims. Such claims create additional costs, which insurers must factor into underwriting and administration—resulting in all consumers having to pay more in premium. This, in essence, puts a strain on the trust relationship. And for this reason, the insurance industry works tirelessly to prevent fraud.

In the five years since Deloitte released its insurance fraud study, insurers and the state insurance departments that regulate them have dramatically improved their fraud-fighting efforts. Insurers have allocated additional resources to their internal Special Investigations Units (SIUs) and expanded their training of claims adjusters to detect fraudulent activity. Moreover, nearly every state insurance department has an in-house fraud bureau. And they are getting results.

For example, California Insurance Commissioner Dave Jones has issued this year alone nearly a dozen news releases on insurance fraud cases his Department either uncovered or worked on. The California cases involved the filing of fraudulent claims for auto collisions that were either staged or never occurred. Others dealt with workers' compensation insurance fraud, such as instances in which employers either misrepresented the number of employees who worked for them or misclassified the jobs the employees undertook. This type of fraud drives up the cost of doing business for a state's employers.

Insurance fraud schemes are, however, always evolving and getting more sophisticated, especially as insurance transactions are increasingly conducted online. Consumers increasingly want to buy insurance policies from their mobile devices, and have their insurance claims paid solely on the basis of the photo they send electronically to their insurer.

But how can insurers verify the identity of the mobile-device user, or the legitimacy of a property damage claim, without having the subject of the claim inspected personally by a claims representative?

This is where the insurance industry's embrace of new technological innovations stemming from big data and artificial intelligence will help improve delivery of their services to the consumer and reduce costs. As we are seeing in so much of our lives, technology and digitalization in insurance can help bring benefits to society; in this case by rooting out unwanted fraud.

In a report released last month, the Boston-based Aite (EYE-TAY) Group outlined the fact that insurers are recognizing their fraud-fighting efforts must adapt to this new era, and found reason for optimism. The Aite Group reports insurers are retaining state-of-the-art vendors, like data aggregators, producers, and receivers and then analyzing this data through the use of artificial intelligence and predictive analytics. The result? Insurance companies are equipping themselves with the high-tech tools they need to assess a prospective customer, verify a claim, and identify suspicious activity.

As much as these emerging technologies make a positive impact, there will always be a human element to combatting fraud, and that is where the I.I.I. plays a role. Consumer education is at the core of what we do, whether it be through our website content, media relations efforts, or public speaking engagements.

Like insurers, consumers must have the information needed to make prudent financial decisions and to protect themselves from fraudulent activities. The I.I.I. is proud of the role it has played in keeping consumers informed and vigilant about rogue contractors, staged auto accidents, and the criminals who want either to steal their insurance proceeds—or even their identity.

Thank you again for the opportunity to speak before you today.