



# Defense Against the Dark Arts: A Claims Management View of Fraud

As any fan of Harry Potter will know, Defense Against the Dark Arts is a subject taught at Hogwarts School of Witchcraft and Wizardry in which pupils learn to fight back against black magic. It occurs to me that claims managers have much in common with the characters in J.K. Rowling's magical universe.

We have learned a few lessons from duels with dark wizards, as we are often at the frontlines of insurance fraud detection – and prevention. Fraud is a global, growing problem, and while it is responsible for only a small fraction of disputed claims, investigations can consume a disproportionate amount of time and resources.

Here are five lessons from the Potterverse that can help insurers work some real-world magic.

## The Sorting Hat Speaks True

In Harry Potter, a Sorting Hat magically determines which of the four school Houses each new student wizard belongs most to at Hogwarts: Gryffindor, Hufflepuff, Ravenclaw, and Slytherin. Members of “Slytherin” “use any means, to achieve their ends”, while Gryffindors are “brave” and true. But most wizards fall somewhere in the middle. The same is true for most insurance applicants. Research in behavioral economics suggests that about 10% of the population will lie on application forms to secure a better deal, while about 10% will always be honest. But most of us can be prompted to disclose more accurately by the way information is presented. That is good news for insurers, because we control product design, marketing and application and claim forms. For example, researchers have discovered that if you ask an applicant to warrant that the information they are about to disclose is true at the top of a form, rather than at the bottom, you actually get a better disclosure quality. If you think about most of our claims forms, this warrant is most frequently positioned at the end. Simple adjustments to our processes can improve disclosure, and prevent fraud, at the time of application and at the time of claim.

## Resistance is the Only Response

When the wizarding world ignores the threat of the dark lord Voldemort, Harry Potter and his friends organize an army to raise awareness. This recalls an equation I once came across: Inclination + opportunity divided by resistance = fraud. I've always found this formulation comforting because we are in control. Insurers control the opportunity for fraud and the resistance to it by the way we market policies, design products, underwrite at application time, and adjudicate claims. Fraud remedies typically range from voiding the policy, denying the claim, retaining the premiums or initiating criminal proceedings. Yet in the past, life companies have been reluctant to allege fraud. Often, companies even refund the premiums, and many rarely initiate proceedings. Why? The public still views insurance fraud as a victimless crime, and carriers can face a costly battle to bring a successful legal case. Yet, we are all harmed by fraud, as policyholders, as shareholders, and as members of the public. Insurers can only continue to offer customers the products they need at a price they can afford if we defeat this threat. That means carriers must send a clear message by fighting back.

## Winning Wizards Stick Together...Globally

Harry Potter may be the ‘boy who lived,’ but many of his friends from around the world ensured his continued survival. One of the best defenses against fraud is a very strong network of colleagues who participate in



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conferences and share trends. The more claims managers, underwriters, investigators, forensic accountants and others are able to share information, the better prepared we all will be to identify signs of fraud that may not be obvious. The world is small, and often a claim event occurs a vast geographical distance from where the policy was taken out. Colleagues can help us determine whether that death certificate has the right stamps, or confirm that a certain set of circumstances is suspicious. Local knowledge and expertise can be very valuable. RGA has organized an annual fraud conference in the United States to help facilitate these discussions.

## Ignore the Howlers

In the world of Harry Potter, a Howler is a magical letter in a red envelope which, when opened, conveys a message in the writer's voice – typically at a very high volume. If this does not sound intimidating enough, a Howler will explode if left unopened. Of course, claims examiners encounter our own Howlers from time to time – those pesky claimant letters threatening to approach the media or take legal action if the writer does not receive the decision he or she prefers. These missives may seem threatening, but they are often a sign that the insured does not want a thorough investigation. We should regard our own Howlers as a sign of the dark arts at work.

## When in Doubt, Don the Cloak of Invisibility

The good wizard Dumbledore gave Harry the “Cloak of Invisibility” as a Christmas present, and what a gift it was. Harry was able to disappear from sight when he wore the cloak and investigate an array of misdeeds. Of course, claims examiners have our own versions of this cloak, which we can use to perform “desktop investigations” to ascertain whether the circumstances of a claim are as reported. For example, do the updates on an individual's social media profile conform to the degree of disability she claims to be experiencing? Does there appear to be any variance between a claimant's income-generating hobbies and the restrictions he purports to be suffering? We may review public social media accounts and a variety of other databases to investigate claims history or validate other policies that the insured may have in force. Legitimate claimants also benefit from this process, which reduces fraud-related costs and prevents the claimant from having to submit additional information.

The Harry Potter novels create a bizarre, and quite entertaining, alternative magical world, but the truth of claims management can be stranger than fiction.

Reinsurers can help guide claims departments through this often treacherous reality by offering best practices, documentation verification and other services. Contact me at [tpaap@rgare.com](mailto:tpaap@rgare.com) to learn more about tools and resources available to help fight fraud. ■