

Protection from fraud

How to identify fraudulent claims and reduce your risk **Interviewed by Chelan David**

All businesses, regardless of size or sector, are vulnerable to fraud. And while the types of schemes used to misappropriate funds vary, they tend to share a common thread: They can be extremely costly to a business.

"Fraud can encompass any business, anytime, anywhere and in a vast number of ways," says Nathan Edmonds, senior partner at Secrest Wardle. "It is estimated that fraud accounts for more than \$100 billion per year of incurred losses in the insurance industry alone."

Smart Business spoke with Edmonds about how to identify fraudulent claims and reduce your risk of them, and about the importance of working closely with your legal team.

What types of fraudulent claims are businesses most frequently exposed to?

Fraud has been defined as a deception deliberately practiced in order to secure unfair or unlawful gain. Some of the most common types of fraud businesses are exposed to include employees claiming benefits that they are not entitled to — whether it be workers' compensation or additional compensation for time not worked — and personal injury claims by allegedly injured people on the business's property or by someone working for the company.

Fraud usually increases as the economy declines and typically declines during prosperity.

How can a company identify its risk for fraudulent claims?

Businesses face many challenges when it comes to identifying, resolving, mitigating and preventing fraud. There is a tremendous amount of information that must be gathered and analyzed from internal and external sources.

Additionally, businesses must continually adapt detection techniques and processes to new and evolving fraud patterns. A business should identify its risk by using historical data regarding prior claims losses.

Training of personnel is key in identifying red flags or indicators of fraudulent activity. If you doubt the validity of a claim or any circumstances surrounding it, gather all information immediately and document it. Remember that proving fraud is difficult, and it is a problem that businesses constantly grapple with.



Nathan Edmonds
Senior partner
Secrest Wardle

What steps can a company take to reduce its risk?

The best manner in which to combat fraud and reduce risk is to thoroughly investigate the claims where fraud is suspected and promptly and fairly pay meritorious claims and vigorously defend claims without merit.

If a clear and strong message is delivered to all individuals that fraud will not be tolerated, this can be the strongest reduction of risk. No matter how small, take the approach that all fraud will be dealt with seriously.

Additional suggestions for reduction of risk include adding surveillance cameras that record all events where suspected fraudulent events occur, such as hotspots, repeated claim sites and high-traffic areas; establish seminars to inform employees about fraud and how to deal with suspected fraudulent activities; screen employees before they are hired and use exit interviews; display fraud awareness and prevention posters or literature; and display the National Insurance Crime Bureau phone number, (800) TEL-NICB.

Also, ensure your initial response to any alleged fraudulent activity places you in a position of strength. Look for indicators of increased risk at every stage of a claim, such as aggressive behavior, suspicious

circumstances such as a delayed claim or delayed medical treatment, and inconsistencies in reported events.

What can a company do if it believes it is the victim of a fraudulent claim?

If a business believes it has been the victim of a fraudulent crime, the most critical aspect is documentation. As time progresses, memories of events are lost, things are moved and items are replaced. Thus, it is imperative to collect as much information as close to the actual fraudulent event as possible.

Once you gather all the information, contact an attorney, and then law enforcement is critical. Law enforcement may not make the claim a high priority, and it will typically become a civil matter in which legal representation is required to attempt to recover or prevent a claim from being made.

Prepare a list of questions that will help you establish the details of the fraud. Ask for answers in writing so they can be used as evidence. Obtain the name, address and phone number of every witness. Request photographs and sketches to document the fraud and obtain medical records if it is an injury claim. As the old saying goes, "The devil is in the details."

Why is it important for a company to develop an action plan with its legal team?

In dealing with fraud, the attorney is a critical part of the team. The attorney who has handled fraud either for a victim or in helping recover assets from fraud can alleviate many pitfalls and spot issues to avoid legal difficulties.

Counsel can also open avenues to law enforcement for potential prosecutions of individuals who committed fraud. The legal team is part of the entire position of any business's approach that fraud will not be tolerated.

If a business tolerates fraud, it will only serve to be a target of more frequent activities, which will grow in scale. Typically, fraudsters will test out a business by small activities and, if undiscovered, will then grow bolder with no repercussions. <<

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