Carrier Management

Insurer Develops Analytics Tool to Avert Workers Comp Fraud at Onset of Claim

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Nearly a quarter of small business owners have installed surveillance cameras to monitor employees and avert workers compensation fraud, according to a 2015 poll by Employers. But organized crime rings outsmart employers through complex workers comp fraud schemes that may go undiscovered until years later, according to ICW Group, a privately held property/casualty insurance group based in San Diego, Calif.

ICW Group was dissatisfied with the tools available on the market, so the group of insurers set out to develop a product of its own—the Analysis Investigation Module (A.I.M.)—to combat workers comp fraud before it begins.

"No one tool met our standards in terms of protecting our customers, so we built our own," said Danny Engell, vice president of enterprise strategic planning and analytics at ICW Group.

Cost was another factor affecting ICW's decision to create the fraud-fighting tool. "I got quotes up to half a million dollars for just part of the puzzle," said Mike Bender, director of ICW Group's Special Investigations Unit.

Created by team members from various departments within member insurers, A.I.M. draws from several sources, including its own claims data, national and state records, and industry archives.

The group worked on the module for about 18 months before it went into beta testing.

Bender explained that analytics and big data allow the module to identify fraud indicators immediately upon a claim submission.

"Other antifraud tools only address part of the problem and do not also specifically address our customers' needs of reducing expenses, keeping employees healthy and getting injured workers back to work healthy," Bender added.

Dissatisfied with the tools available in the market, ICW Group decided to create its own "Analysis Investigation Module" to identify fraudulent workers compensation claims immediately upon a claim submission.

The intuitive platform will

become smarter and faster over time. "It's fluid and continually updated with new industry trends, organized criminal behavior, laws and new analytic capabilities to identify fraud," Engell said.

Still, the module will continue to be refined, according to Bender. "It's not to where we want it to be as far as artificial intelligence, but we set up different scripts and different algorithms," Bender explained. "As it identifies certain patterns, it will compare with other patterns. It'll use some other systems as far as telling us if we're going down the right track, investigatively speaking—to put resources there or somewhere else."

Bender said the module has several pop-up dashboards to inform the user if there is an increase in suspicious activity.

"Maybe it's a billing activity in a certain ZIP code that doesn't match all the surrounding ZIP codes," Bender said. "If we're looking at all the ZIP codes in a certain area and all of a sudden there's an outlier to something that's going on there, the system is going to tell us that, versus us looking and trying to compare things by human intervention."

Bender said that the product is capable of uncovering the next new trend. "That's what we want to know. We want to know what's happening as it's happening, so we can then stop it from happening or attacking us," Bender said.

Actionable Data

With more than 30 years of industry experience, Bender said he wasn't interested in a passive approach to fraud investigation.

"One of my pet peeves is everybody sitting around a table, whether it be law enforcement or the industry, talking about the bad guys, what they're doing and how they're doing it," he said. "I want to avoid that by identifying issues immediately, with actionable information that we can use for our customers that could be unique to us but at least give us a leg up on stopping fraud and abuse."

All of ICW's claims data, beginning at the first notice of loss, is evaluated through a variety of different systems, Bender explained.

"We do have typical business rules. You look for the normal things on any claim, but what's important to us is that every single claim, as soon as it comes in, gets bounced against several different databases," he said.

First, the claim is evaluated against common red flag indicators, such as whether it occurred on a Monday or after a three-day weekend. All of the data is scored, and the scores are automatically sent to claim representatives as part of the files in the claim system, Bender said.

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"They know in real time what they're dealing with. If they have an injured party that's had multiple injuries to the same body part, yet he's telling them that this is the first time it's ever happened, automatically, they have that data, and they can start…guiding the investigation accordingly," he said.

Next, data gathered during a field investigation or through analytics is fed into the system, Bender said. The module searches for certain key phrases, names or items that have been marked to watch.

Bender offers an example of a provider billing code that has been billed for some time and then suddenly changes to a different code.

"Are they doing that because they want to stay under the radar and they don't want a certain threshold? Are they doing it because maybe they were told not to bill that way anymore? We're just looking at everything. We're letting the data speak to us," Bender said.

He explained that the module has allowed the group to identify doctors involved in fraud that were operating under the radar.

Positive Results

Beta testing results revealed an increase in arrests, indictments and restitution on fraudulent claims, decreased claims costs, as well as identification and deterrence in organized fraud ring attacks on ICW and its customers.

The module has already demonstrated time savings.

"We get requests from law enforcement all the time to do some background on…a ring or a person. In the past, without this system, some of it would've been impossible for us to do," Bender said. "With this system, we've taken some of our tasks that would've taken months, now we can do within days or hours. It's a huge savings with manpower and investment, and it's more accurate."

Adjusters handling workers comp claims are under pressure because they have 14 days to accept, delay or deny a claim, Bender explained. "This system…takes some of the weight off their shoulders and looks at their cases for them and can provide information in a very timely manner that will help them to handle their claim better. It doesn't require any additional work on them. It just gives them the tools," he said. "It is a big help for claims, I think, to automate it. If you can take the human element out of it, expedite everything and give us clean, clear data that's actionable, that really helps increase everything," said the SIU director.

ICW Group's ultimate goal is to make sure injured workers get the treatment they need and return to work.

For those insurers unable to afford some of the fraud-detecting systems available, Bender recommended they be open to innovative ideas from employees.

"I think the tip would go…all the way up to their CEO on the ability to allow innovation," Bender said. "A lot of companies have the talent; they're just prevented from applying that talent. In fact, we picked up quite a few talented investigators because they couldn't do their job in stopping fraud" elsewhere, he said. CM