

## **COMBATTING FRAUDULENT ARSON**

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### **FRAUDULENT ARSON: THE PROBLEMS**

#### **Costs**

The annual material damage caused by fire is about £1 billion of which arson is estimated to cost Insurers at least 500 million, business interruption costs and losses to the economy.

Fraudulent arson i.e. arson committed or arranged in order for the policyholder to gain from the insurance monies is estimated by the ABI and Arson Bureau to be in the region of 10-20% of total cost of fire damage each year. Fraudulent Arson is therefore costing Insurers somewhere between £100m and £200m each year.

#### **Fire Brigade**

Unfortunately Fire Brigades do not have the sufficient Arson investigation units. Usually therefore the Insurers have to engage their own forensic scientists. Investigation at the scene is made more difficult by the disturbance of evidence resulting from the Fire Brigade's extinguishment activities.

#### **Police**

If the Fire Brigade believe that the fire started as a result of arson then the Police are obliged to takeover all investigations. However, the Police are not generally trained in Arson investigation and the "fine grain detail" of enquiries, especially with regard to financial and commercial information, can often not be completed due to lack of resources.

#### **Criminal Prosecution**

The Police and Crown Prosecution Service are obliged to present evidence beyond reasonable doubt that the policyholder committed the offence of the Arson. The civil burden of proof is based upon the balance of probabilities although in view of the serious nature of the allegation of fraudulent arson the burden is heavy but not as onerous as beyond reasonable doubt. It is important to note that failure to prosecute a criminal charge of arson should not automatically be taken as evidence to suggest that a defence at civil law by an insurer will be defeated.

## Investigation Approach

If 10-20% of arson cases are thought to be a result of a deliberate act by the Insured then conversely 80-90% of arson cases are not the result of any deliberate act by the Insured. Insurers, Adjusters and other representatives must therefore be sensitive in their approach to the investigation given that a large proportion of arson claims are thought to involve innocent Insureds. A detailed investigation should take place whilst at all times recognising that the policy holder is a customer of the Insurer, has paid for the policy and may be in shock. If conducted properly, a detailed approach can reassure an innocent Insured but detect an Insured guilty of committing arson to defraud Insurers.

## Loss Adjusters

The writer's research survey of the majority of UK Insurers confirmed that the loss adjuster is regarded as the preferred professional to deal with fraudulent arson. The responsibility upon the adjuster following notification of a fire claim is intense as pressure will be applied from interim payments and issues relating to the business interruption potential also need consideration. The adjuster must arrange for thorough and concerted investigation to take place in order that the involvement of the Insured can be discounted.

## TRAINING

### Cause and Investigation

Adjusters receive no formal training into fire investigation. It is hoped that discussions between the Arson Bureau and the CILA will lead to a series of fire investigation courses. There is a concern that some fires are recorded by the Fire Brigade as well as Adjusters under incorrect causation heading. Fires are often attributed by the Fire Brigade as well as Adjusters to discarded smoking materials, electrical original, or unknown. These three headings together in 1990 accounted for one third of all fire loss causes.

### Arson and Fraud examination

Plans are being made to include this subject into the final qualification for Loss Adjusters. The benefits will not only relate to fraudulent arson claims detection but also to fraudulent claims in general.

### Insurers Considerations

The fraudulent arson working group of the Arson Bureau has prepared a set of guidance notes with recommended actions relating to the underwriting and claims handling. The publication is being used by some Insurers and Loss Adjusting firms as Agenda for in-house training.

### Bloodhound or Watchdog?

The existing qualification syllabus does not require the candidate to display any knowledge of fraud investigation. It is "watchdog" based seeming to work on the assumption that Claimants are genuine. The Adjuster is required to display a sound and broad technical knowledge in the assessment of policy coverage and settlement issues. He or She is not examined on "bloodhound" issues which tend to be developed on an ad hoc basis by experience. It is hoped that the Arson and Fraud examination subject will help equip the trainee and newly qualified adjusters with the skills to identify fraudulent claims.

## FUTURE ACTION

### Interview techniques

Interviewing techniques have come a long way from the "hard man – soft man" routine. Observation of body language, style characteristics and the use of Neuro Linguistic Programming techniques have a place in the Adjusters tool kit. The "Parent", "Adult", "Child" roles in transactional analysis also provide an insight into the person being interviewed.

### Software

The software currently available to capture and collate details relating to fraudulent arson case and to prepare further lines of enquiry is not widely published and requires further tailoring to the Loss Adjusters needs.

### Liaison with Fire Brigade and Police

The Arson Bureau is endeavouring to improve relations so that information exchange can be enhanced. At present, successful enquiries depend more upon individual initiatives and personalities than official guidelines from the Police and Fire Brigade authorities.

### Government

It is not clear whether the Government regard Arson as a sufficiently important problem. The Arson Bureau was originally funded on a 50-50% basis between the ABI and the Home Office. However, funding has been withdrawn by the Home Office, leaving the insurance industry to endeavour to solve the Arson issue on its own. Considering the implications of Arson as a risk to life, property, and jobs in the community, there is perhaps an argument that Government support should be increased.

### Insurers

At the present Insurers are focusing upon fraud which is seen as a major cause of profit leakage. It is to be hoped that once the financial results improve Insurers will not allow their interest in fraud to decrease. The recent

initiative in launching the CLUE anti-fraud database is most welcome and may well help to reduce fraud against personal lines policies. However, no timetable has yet been set for including commercial policies on the CLUE database. As fraudulent arson is a significant commercial insurance problem it is to be hoped that the ABI will proceed to including commercial details as soon as possible.

In the interests of the genuine policyholder it is suggested that Insurers should wherever possible seek to act as the complainant and have fraudulent policyholders prosecuted. At present Insurers seem content to avoid payment. The effect therefore is that whilst fraudulent claimants may not receive any insurance monies they remain at liberty to try again later.