



## HIGHLIGHTS FROM THE 2007 AHOU MEETING

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**Executive Summary:** The 2007 annual meeting of the Association for Home Office Underwriters (AHOU) was held October 21-24 in Toronto, Ontario. Highlights of the meeting include hepatitis C, fraudulent foreign and domestic claims, addictions, and emerging medical trends in underwriting. The keynote address from this meeting is summarized in a separate article in this issue.

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### Fraudulent Foreign and Domestic Claims

“We need more due diligence by underwriters at the time of underwriting to reduce the risk of fraudulent claims,” said Bill Marshall, CEO of Veritas Intelligence, LLC, a provider of business investigation services. “It is easier to see where a fraudulent claim could have been prevented, given the 20/20 hindsight that comes with claims investigations. Underwriters should be cautioned not to give the benefit of the doubt to the applicant.”

Foreign claims on North American issued policies present a higher likelihood of fraud than domestic claims. In the U.S. and Canada, information from records is fairly transparent, so fraud remaining within these countries tends more towards misrepresentations of pre-existing conditions and net worth. Fraudulent claims from foreign countries are more blatant, more difficult to deny, and more reflective of a wide range of human behavior, including:

- Insured is not really deceased;
- Insured was murdered;
- Different body is substituted for the insured; and/or
- Cause/manner of death is misrepresented (e.g., a drug overdose becomes a “heart attack”).

The challenge of foreign claims is how to obtain the information required to make a fair decision on a claim. The answer is to research and investigate where the facts are, get the facts, and understand the facts. The process is the same as claims investigations here, but it is intimidating to go to Zimbabwe or the Philippines to track down what facts may or may not exist.

Just like here, the tools of the trade for the claims investigator include:

- Databases (which are less likely to be electronic or on the latest equipment)
- Public records (which can be suspect or difficult to obtain)
- Interviews of witnesses, family, police, attending physician or coroner (who can be suspect or difficult to reach)
- Surveillance and other field techniques (useful for “deceased” insureds who may be still alive, or claiming disabilities they don’t really have).

The usefulness of databases is familiar in North America, but there may be growing restrictions on access for privacy reasons. Canada currently is more restrictive than the U.S., but some local U.S. public records are not being made available electronically for privacy reasons. Investigators often find that they still must travel to the actual record location in the U.S. to gain access to them.

In other countries, investigators typically work with a local investigator to overcome language and access barriers. An investigation may require a liaison with law enforcement, but care must be taken when local police may have ties to the mafia or may be complicit in the death being investigated. Even if the local officials or police are not complicit, they may demand bribes that are far higher than the legitimate fees paid for access or copies of database records. Mr. Marshall recommended that in such cases, police should not be approached first in an investigation, and that those who demand bribes should be avoided. Any evidence that is tainted by corruption may be rejected by the court that is hearing the case.

The problems faced by investigators looking for facts on a case may be founded on the country's lack of a solid economic infrastructure. Databases and other records in many countries can be poorly kept or nonexistent. Professionals such as doctors and police may be so poorly paid that they may be willing to alter or fabricate documents for a fee. For example, a person who was killed by a shot to the abdomen may have listed as cause of death on the death certificate, "bleeding from the upper GI."

Other problems may lie in deficiencies in the rule of law as they are practiced in a country. Interested parties in a death being investigated may have local influence with how authorities respond to the investigation. Investigators in such places may be assaulted and/or arrested to discourage continued investigation. Surveillance and investigation for commercial purposes within a country may be declared illegal and banned by a government over national security considerations. In situations such as these, investigators may work with a retired local police officer who knows how to get things done effectively under such conditions.

In North America, there is less bribery and falsified documents seen in claims investigations, yet such cases do arise. Interested parties can get certain diagnoses listed or not listed on death certificates (e.g., the well-known misdirection by attending physicians who list "pneumonia" instead of "AIDS" as the underlying cause of death, or "accident" is listed instead of "suicide"). This belief in political correctness and that it is OK to mislead others on behalf of the insured is pervasive throughout North America. Also in the U.S., the threat of assault does exist – one case in Las Vegas arose where the drunken husband of a "witness" threatened the investigator.

Considerations for whether an investigation of a claim should take place include:

- Are there sufficient grounds for denying a questionable claim, rescinding a policy, or filing an interpleader to prevent policy proceeds from going to a beneficiary?
- Will the cost of an investigation be worth more than the funds being disputed?
- What is the likelihood of litigation and a successful legal defense?
- What are the issues with the claim?
  - Is it contestable?
  - Does it involve misrepresentation or fraud?
  - Would the case create sympathy by the jury for the insured?
  - Did a real death occur?

Underwriters can help prevent many fraudulent claims and their associated costs by paying closer attention to any red flags during underwriting. Foreign travel to certain countries (Colombia, Haiti, Mexico, Pakistan and Vietnam) should alert underwriters to possible hazardous activities by the applicant. More medical history that is disclosed up front can also save a world of hurt that occurs at claim time when misrepresentation is a factor. For STOLI cases that might be settled soon after policy issue, medical misrepresentation and income/net worth inflation are hazards that the underwriter should consider.

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