



Fighting Insurance Fraud In Africa

The Africa Insurance & Reinsurance Conference

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Manager Forensic Investigation

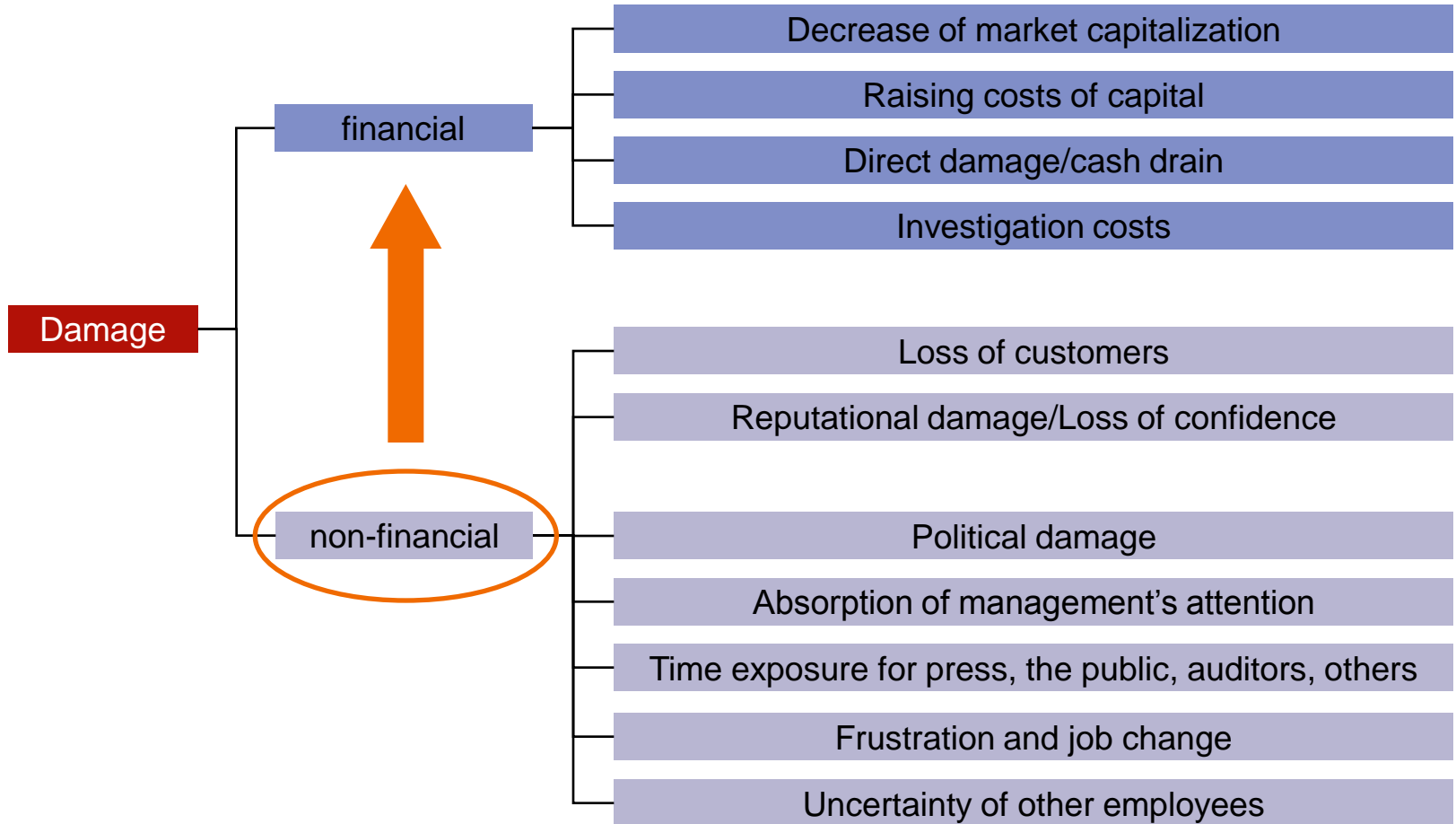
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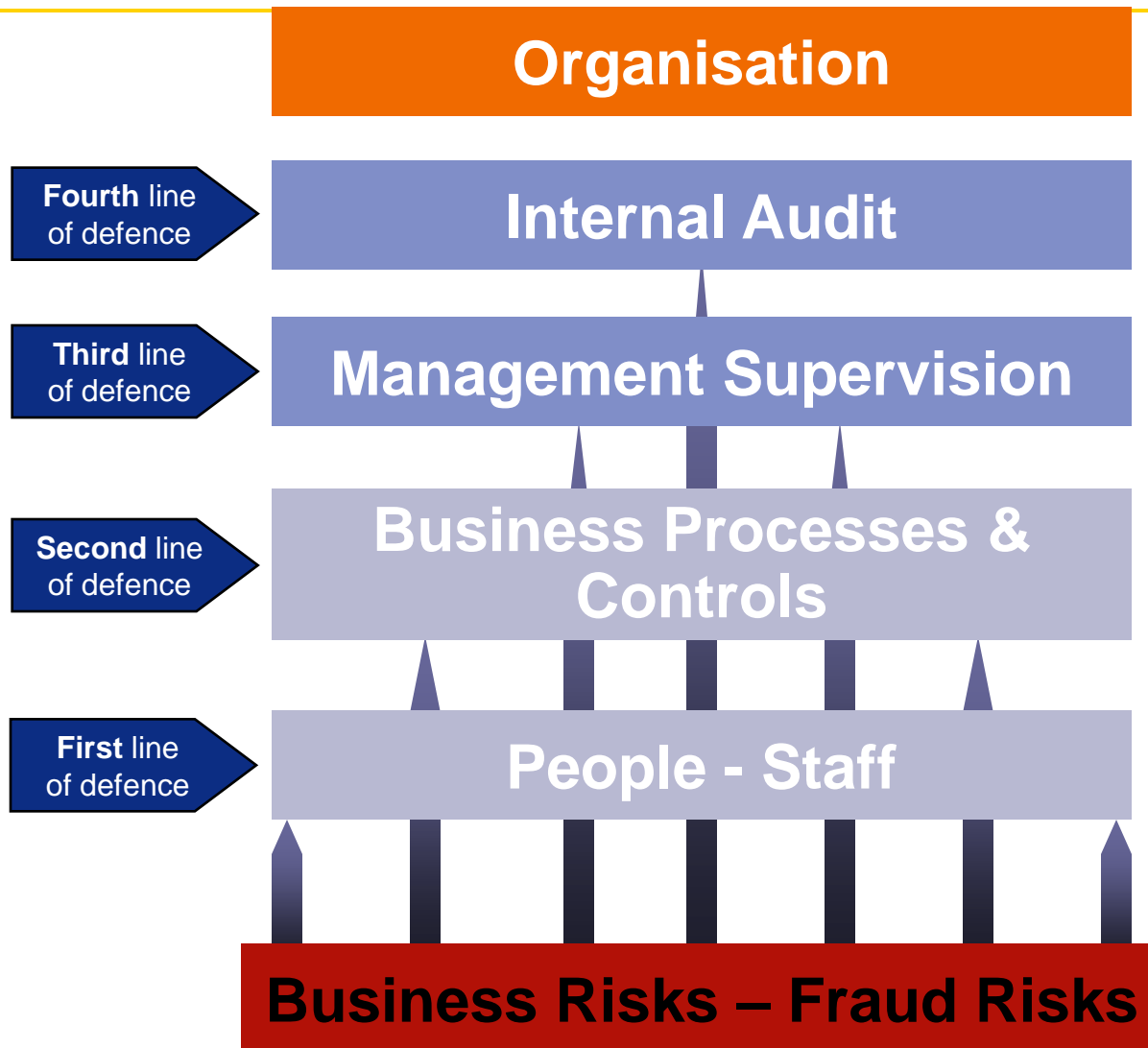
Fraud Risk Management - Model

In the wake of high profile corporate scandals many business leaders are increasingly aware of the need to create company specific anti-fraud measures to address internal corporate fraud and misconduct.

Impact of fraud



Risk Management – Lines of Defence



Fraud Risk Management

- ▶ Systems and processes put in place to proactively mitigate the risk of fraud
- ▶ Fraud risk management goes beyond the realm of internal controls to identify areas where controls may be compromised
- ▶ People are the first and most critical line of defence against fraud

Fraud Risk Management - Model

The objective of every insurance company is to;

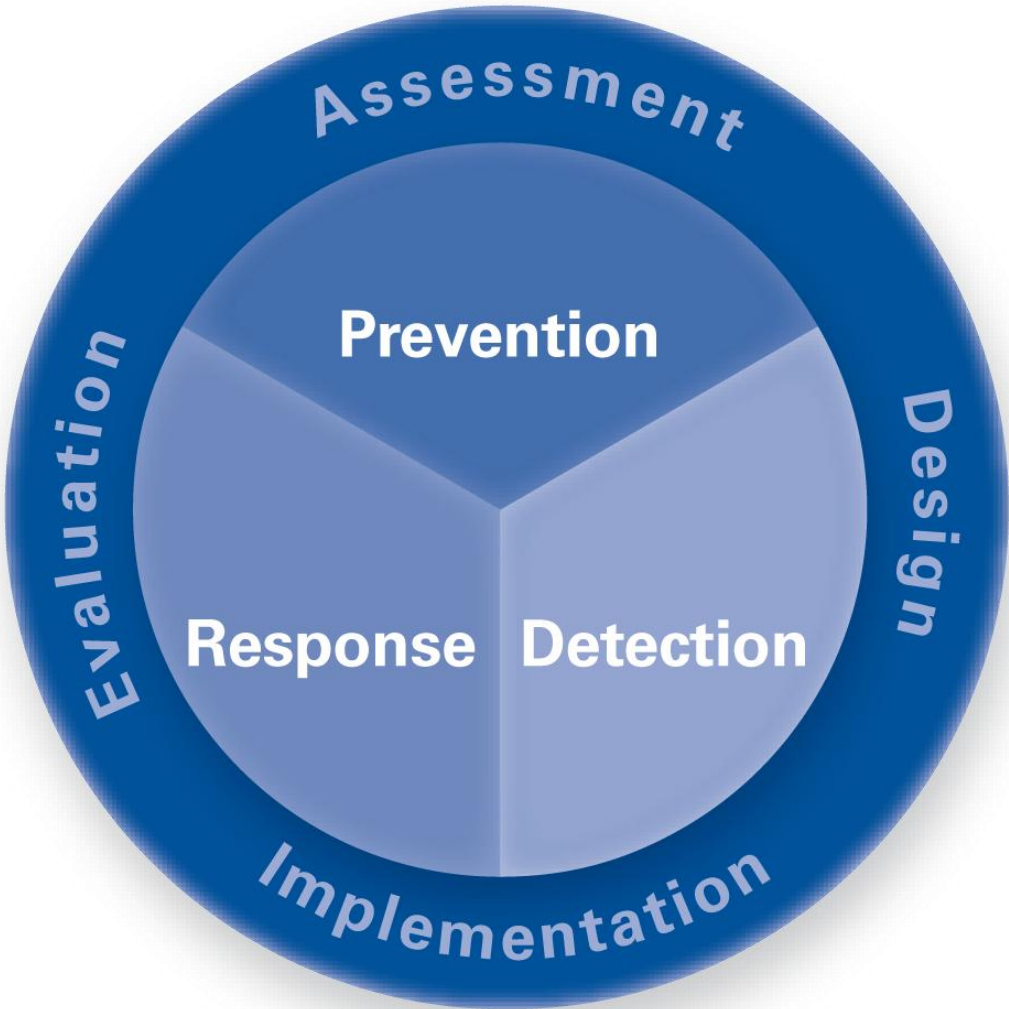
- ▶ Understand fraud and misconduct risks that can undermine the business objectives.
- ▶ Reduce exposure to corporate liability, sanctions and litigation. The desired objective is to save costs and reduce losses.
- ▶ Achieve the highest levels of business integrity through sound corporate governance, internal control and transparency. The desired objective is to protect the image and reputation of the business.

Fraud Risk Management - Objective

A business driven fraud risk management approach should encompass controls that have three objectives:

- ▶ Prevention – Putting in place controls designed to reduce the risk of fraud and misconduct from occurring in the first place.
- ▶ Detection – Putting in place controls designed to discover fraud and misconduct when it occurs.
- ▶ Response – Putting in place controls designed to take corrective action and remedy the harm caused by fraud or misconduct.

An Ongoing Process



FRM-continuous process

- ▶ Effective fraud risk management should provide an organisation with tools to manage risk in a manner consistent with entity's business needs and market place expectations. Such an approach has the following four main phases;
 - ▶ Assess risks – Identify the scope of the analysis and key stakeholders, profile the current state of fraud risk management, set targets for improvement and define steps necessary to close the 'gap'.
 - ▶ Design – Develop a broad ranging program that encompasses controls to prevent, detect and respond to incidents of fraud or misconduct.
 - ▶ Implement – Deploy a strategy and process for implementing the new controls throughout the organisation and assign responsibility for leading the overall effort to a senior individual.
 - ▶ Evaluate – Assess existing controls compared with legal and regulatory frameworks as well as leading practices, such as internal investigation protocols or due diligence practises.

18 Attributes of “Better Practices”

▶ Fundamental

- ▶ Senior management commitment
- ▶ Sound ethical culture
- ▶ Fraud & corruption awareness
- ▶ Line management accountability
- ▶ Fraud risk management policy

▶ Maintenance

- ▶ Monitoring ethical culture
- ▶ Continual fraud risk assessment
- ▶ Review fraud control plan/policy

▶ Operational

- ▶ Fraud risk assessment
- ▶ Internal control
- ▶ Fraud detection programme
- ▶ Fraud reporting mechanisms
- ▶ Fraud investigation programme
- ▶ Internal audit
- ▶ Whistleblower protection
- ▶ Allocation of resources
- ▶ Pre-employment screening
- ▶ Insurance

FRM-Prevention

To prevent fraud organizations' should;

- ▶ Establish a process for oversight of fraud risks by the entity's Senior Management and others charged with governance
- ▶ Senior management should take responsibility for oversight of fraud risks
- ▶ Put in place a fraud prevention plan
- ▶ Implement a Fraud management strategy
- ▶ Have in place clear publicised lines of reporting detected cases of fraud
- ▶ Assign a member of senior management with responsibility for managing fraud risks and responsibilities of ethics and compliance
- ▶ Conduct effective trainings to all members of Staff including Directors on appropriate roles and responsibilities relative to the compliance and ethics program
- ▶ Communicate to head of departments and managers their responsibilities for managing fraud risks
- ▶ Designating the roles to persons who should be charged with responsibilities of reporting on effectiveness of anti-fraud controls within their units

FRM-Detection

The organisation should ensure there is in place;

- ▶ An ongoing identification, assessment and management of fraud risks
- ▶ An agreed method of identifying and assessing risk
- ▶ Independent fraud risk assessment by an external organisation
- ▶ Periodic review of the control environment
- ▶ Proactive practical action to mitigate risk
- ▶ Regular measurement of the extent to which the policies are complied with
- ▶ Monitoring of compliance with the code of conduct
- ▶ External threat and fraud monitoring
- ▶ Audit hooks and computerized e-mail monitoring
- ▶ A proactive Internal Audit Department
- ▶ Whistle blower policy

FRM-response

An organization should prepare for the following if fraud is suspected or happens;

- ▶ Internal investigation protocols
- ▶ Institute disciplinary action-Enforcement and accountability protocols
- ▶ Disclosure and publication of investigated and concluded cases of fraud
- ▶ Sharing of industry fraud risks and investigated cases
- ▶ Remediation protocols

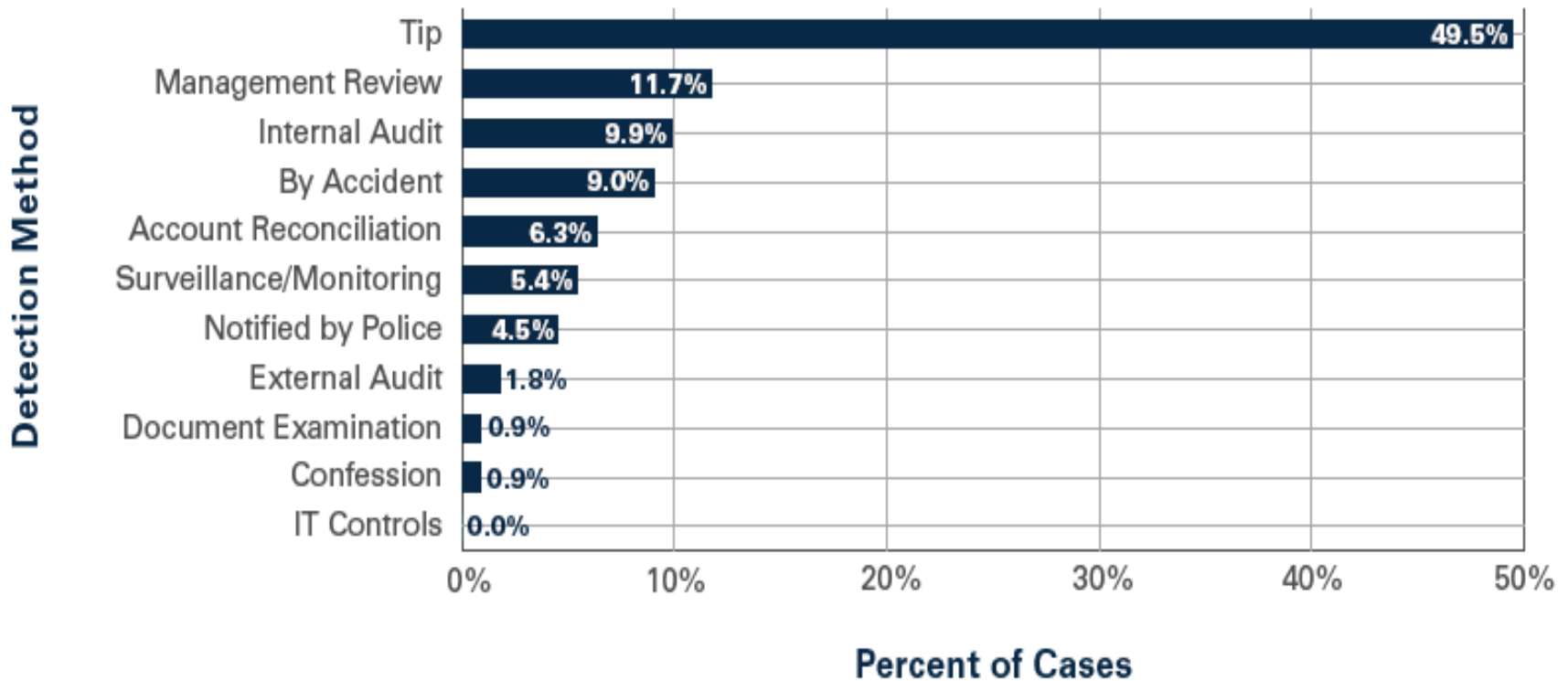
Fraud Detection: World Wide

- ▶ *Frauds are much more likely to be detected by tips than by any other method.*

Ranking	Mode of detection	% of frauds detected
1	Tip	40.2
2	Management Review	15.4
3	Internal Audit	13.9
4	By Accident	8.3
5	Account Reconciliation	6.1
6	Document Examination	5.2
7	External Audit	4.6
8	Surveillance/Monitoring	2.6
9	Notified by Police	1.8
10	Confession	1.8
11	IT Controls	0.8

Fraud detection – The Reality

Detection in Africa — 111 Cases



The instruction

- ▶ “The world is a dangerous place to live;
Not because of people who are evil,
But because of the people who don’t
do anything about it”

Albert Einstein



Growing Beyond: a place for integrity

12th Global Fraud Survey findings for Kenya

Survey approach and participant profile

- ▶ Between November 2011 and February 2012, our researchers conducted a total of 1,758 interviews with employees in 43 countries covering North America, Latin America, Europe, Africa, Middle East, Far East and Oceania.
- ▶ A sample of the largest companies in each country by turnover was interviewed. Senior executives interviewed included CFOs, heads of internal audit, heads of legal and chief compliance officers. Details of the full survey are shown below.

Role within organization	% of respondents
Finance	42
Internal Audit and Risk	22
Legal	9
Compliance	3
Other executives	24

Global revenues	% of respondents
Above US\$1b	32
US\$500m – US\$1b	22
Less than US\$500m	46

- ▶ All interviews were conducted by telephone in the local language.

Survey approach and participant profile

- ▶ 25 interviews were conducted in Kenya.
- ▶ Results are compared with findings for Africa, based on 125 interview across 4 countries - Kenya, Namibia, Nigeria, and South Africa. Results are also compared with findings for Western Europe, based on 602 interview across 12 countries - Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, and UK.
- ▶ Please note that, due to rounding, some figures may not sum to 100%. On some slides the “don’t know” and “refused” percentages have been omitted to allow better comparison between the given responses. As a result, percentages may not total 100%.

Summary for Kenya

- ▶ Kenyan companies report a significantly higher incidence of bribery and corruption (76%) compared to the rest of Africa (67%), Western Europe (22%) and globally (39%).
- ▶ The vast majority of Kenyan companies state that they have anti-bribery policies in place (96%), and that senior management has strongly communicated its commitment to such policies (96%).
 - ▶ This view is largely matched by the African region as a whole, whilst slightly outpacing Western European and global levels.
- ▶ In line with all comparative regions, regular internal (96%) and external audits (80%) are the most commonly used method of monitoring compliance with anti-bribery laws.

Summary for Kenya

- ▶ Both Kenyan (84%) and African (80%) companies are more likely than the Western European (61%) and global (63%) average to accept that market entry presents new risks.
- ▶ Kenyan businesses and Africa as a whole, adopt more systems and processes to manage and monitor third party relationships than the rest of the world. Specifically, they are more likely to adopt 'background checking systems' (81% Kenya, 81% Africa).

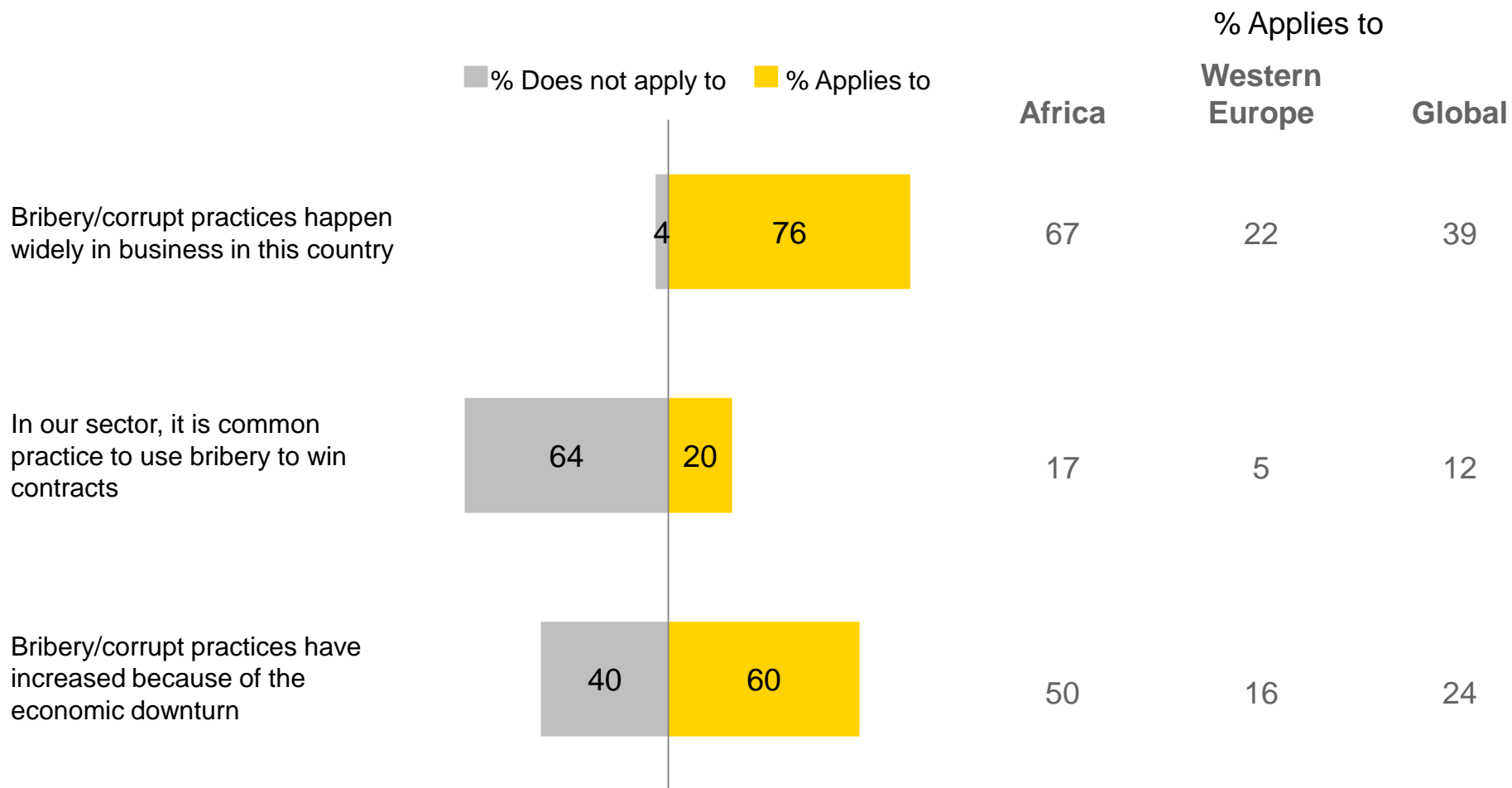
Summary for Kenya (cont'd)

- ▶ Nearly a half of respondents (44%) believe liability is shared with third parties, higher than that of African (38%), Western European (34%) and global (39%) comparatives.
- ▶ Strong overall support (76%) for establishing whistleblowing bounty schemes, far higher than levels seen in Western Europe (38%) and globally (52%), but broadly in line with the African regional average (79%).

Summary for Kenya (cont'd)

- ▶ Kenyan businesses perceive authorities as relatively weak in their willingness to prosecute (44% 'appear willing'), and their subsequent ability to secure convictions (4% effective in securing convictions), in bribery and corruption cases.
 - ▶ These levels are significantly below perceived levels of effectiveness seen across Western European and global norms.
- ▶ Broadly in line with the African region as a whole (78%), there is a large desire for increased regulatory supervision (84%), outpacing both the global (69%) and Western European (61%) outlook.

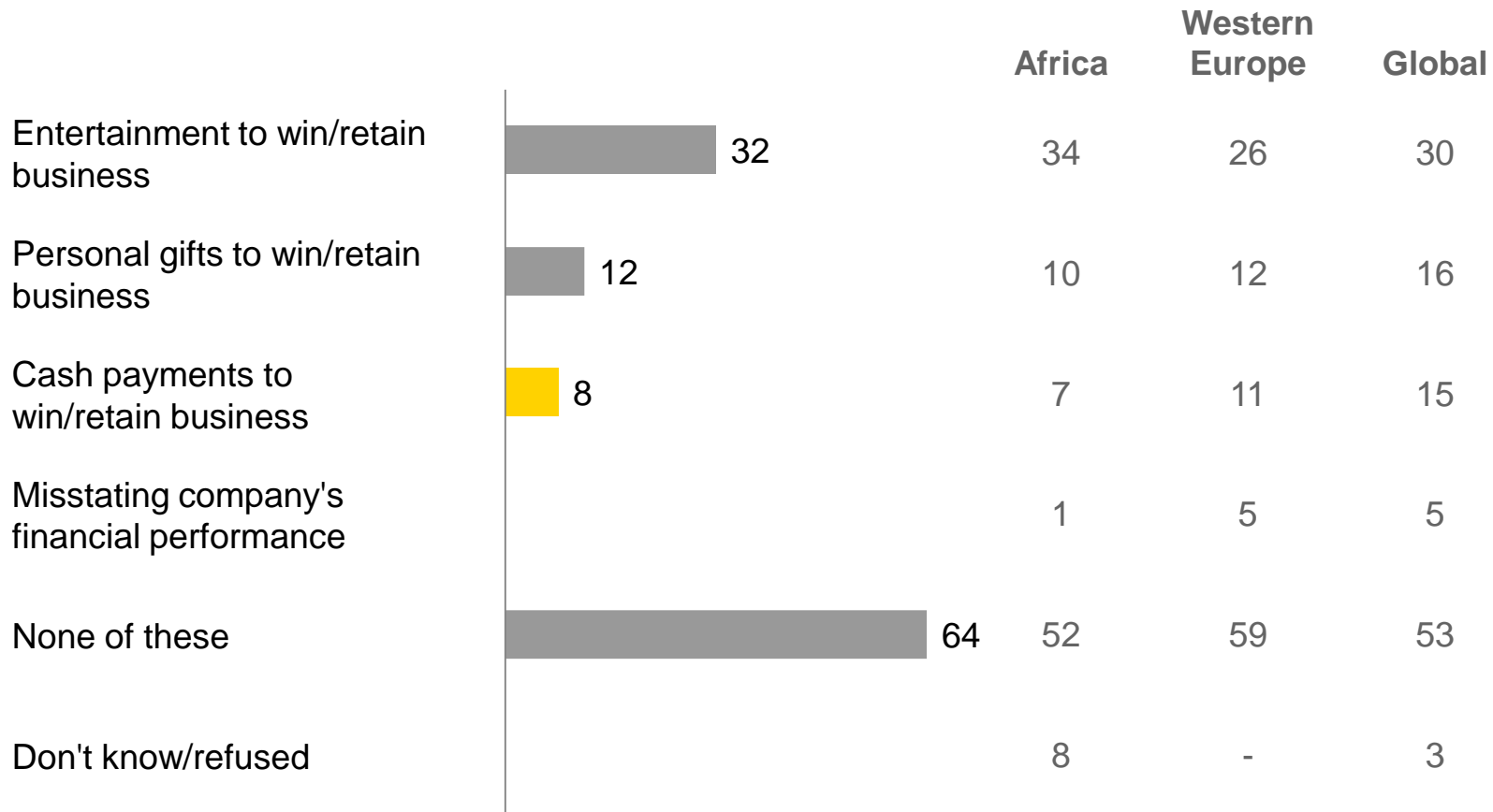
Bribery and corruption is widespread



Q: For each of the following, can you tell me whether you think it applies, or does not apply, to your country/industry, or whether you don't know?

Base: all respondents in Kenya (25), Africa (125), Western Europe (602), Global (1758)

Increased willingness to pay bribes or misstate financial statements

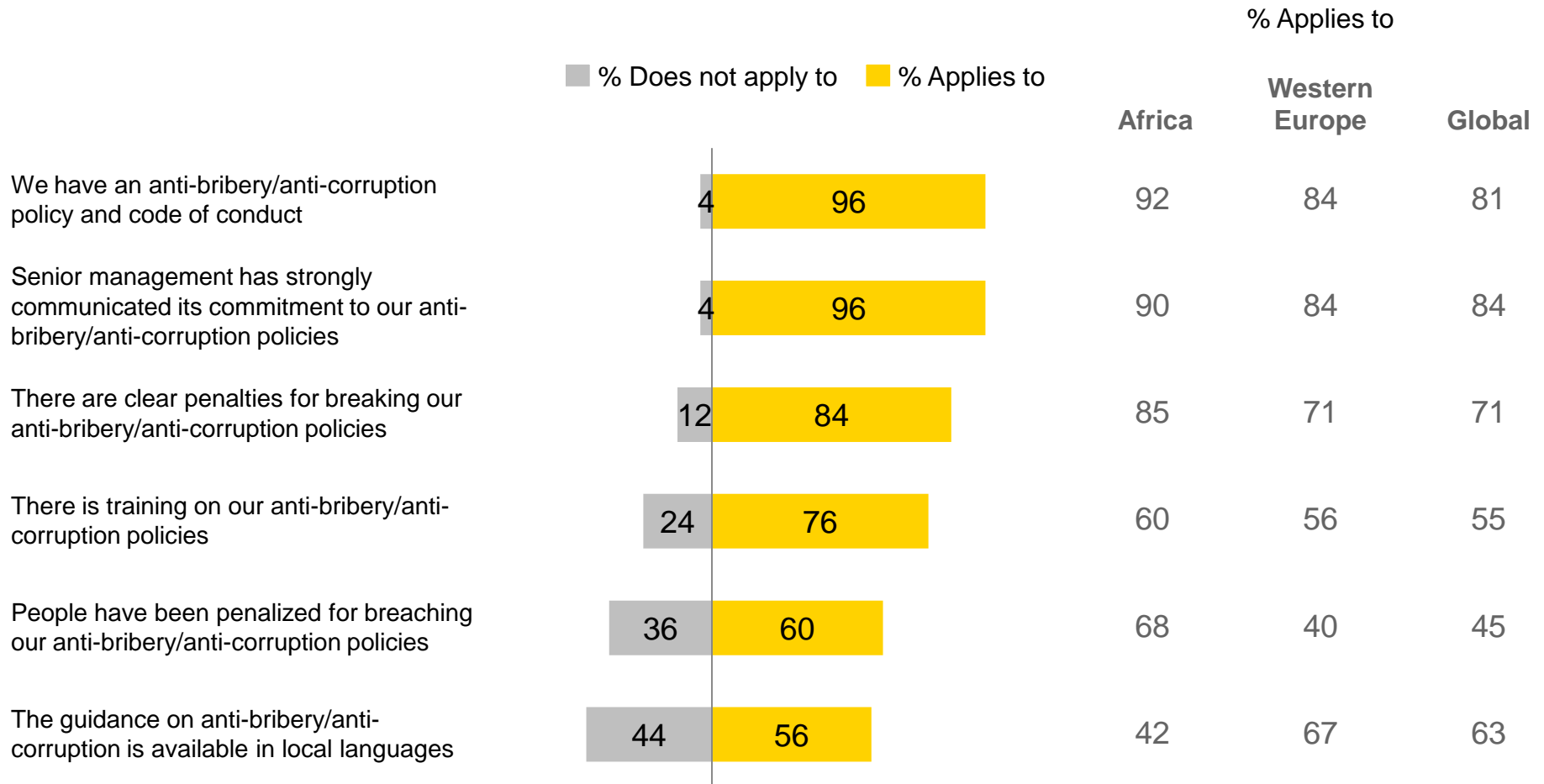


Shown: percent stating response

Q: Which, if any, of the following do you feel can be justified if they help a business survive an economic downturn?

Base: all respondents in Kenya (25), Africa (125), Western Europe (602), Global (1758)

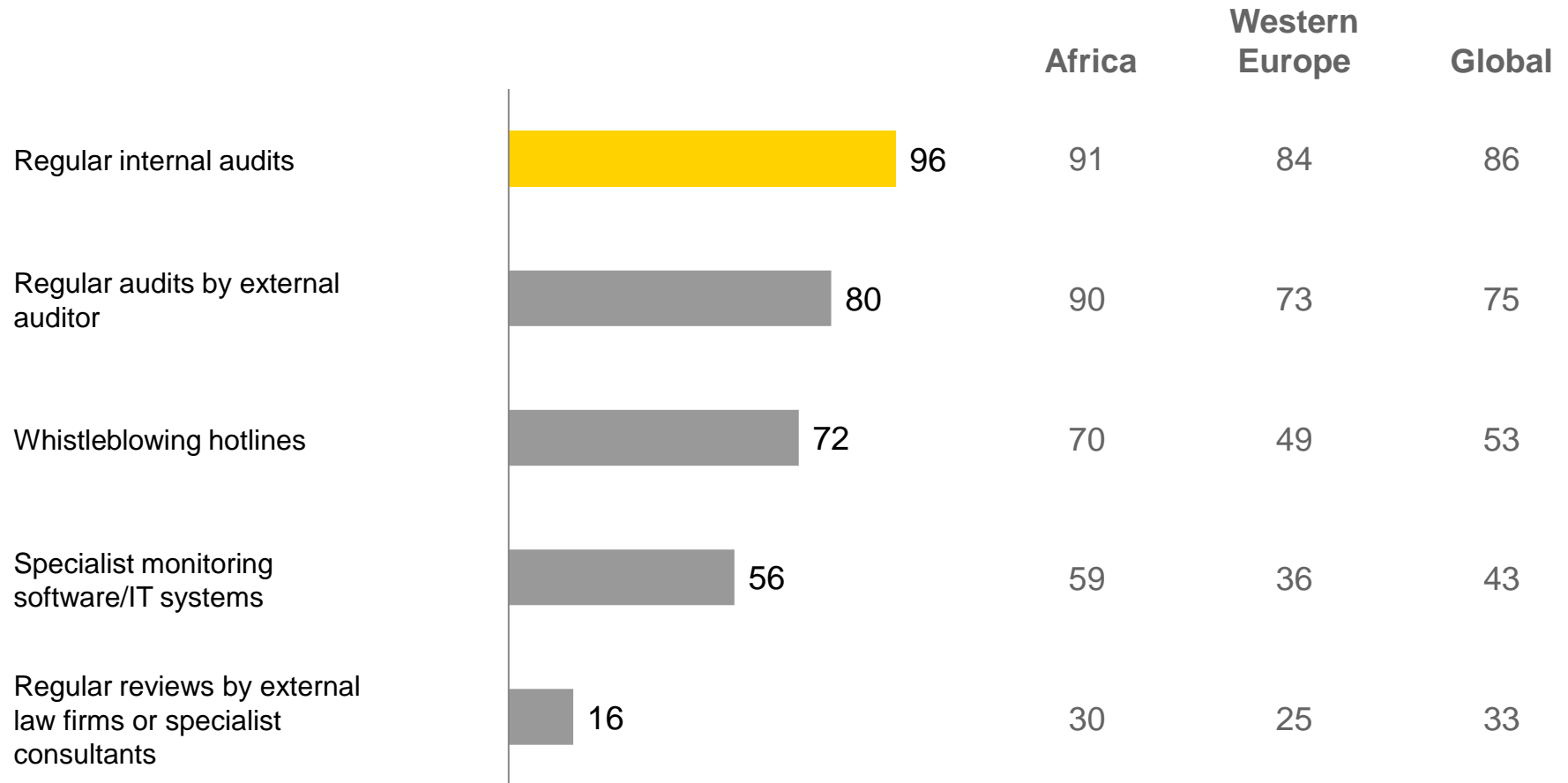
Failure to follow through on tone from the top



Q: For each of the following, please tell me whether it applies, or does not apply, to your organization, or whether you don't know?

Base: all respondents in Kenya (25), Africa (125), Western Europe (602), Global (1758)

Types of compliance monitoring processes in use

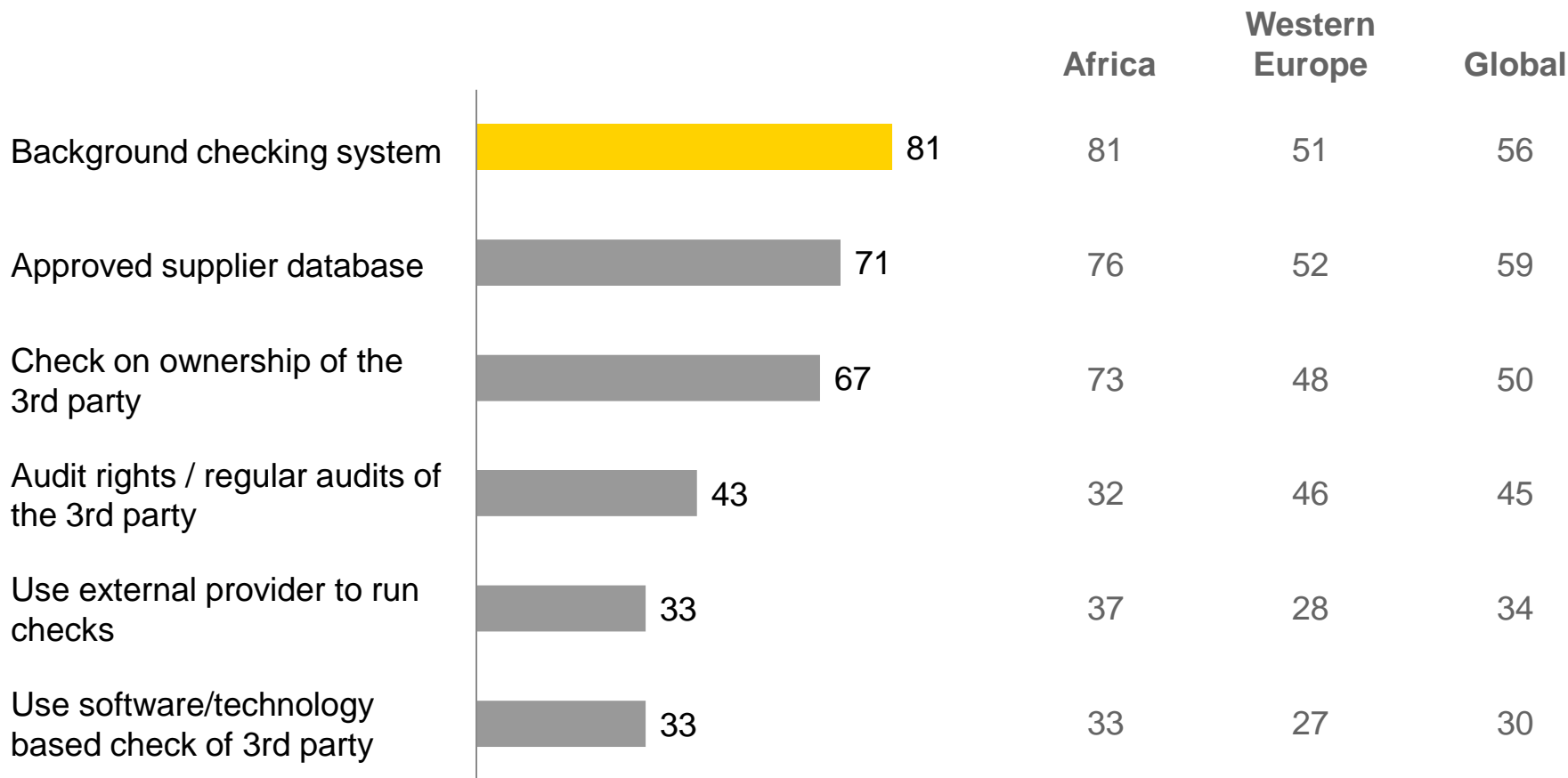


Shown: percent applies to

Q: Which of the following systems or processes does your organization have for monitoring compliance with anti-bribery and anti-corruption laws?

Base: all respondents in Kenya (25), Africa (125), Western Europe (602), Global (1758)

Approaches adopted in managing third party relationships

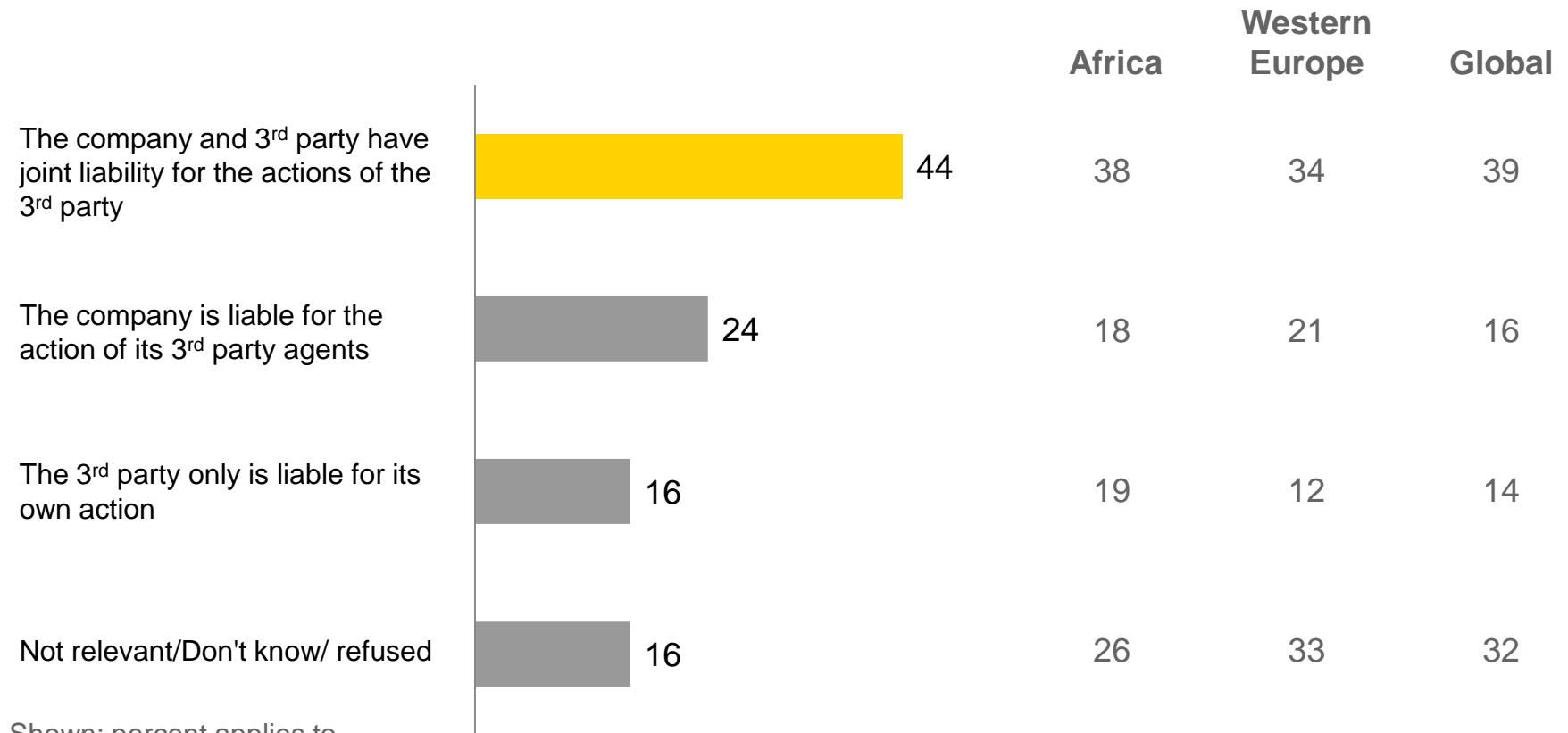


Shown: percent applies to

Q: Thinking about third parties that your organization uses, what systems or processes do you have in place to manage and monitor those relationships?

Base: all who use a third party Kenya (25), Africa (125), Western Europe (602), Global (1758)

Limited awareness of liability for third-party actions

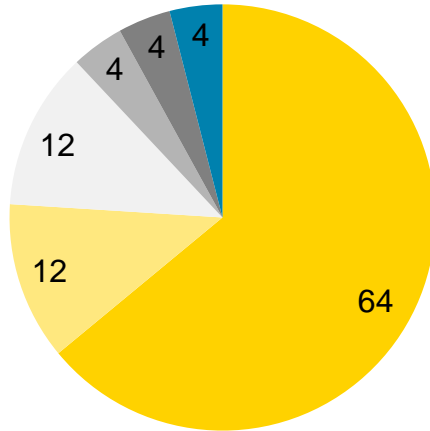


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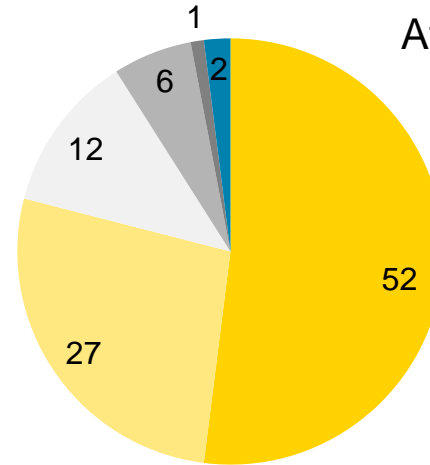
Q: Many companies make use of third-party agents as part of their normal commercial activities, particularly around sales and distribution. Which of the following is closest to your understanding of the liability companies have for the actions of 3rd party agents acting on their behalf Base: all respondents in Kenya (25), Africa (125), Western Europe (602), Global (1758)

Support for whistleblower bounty schemes

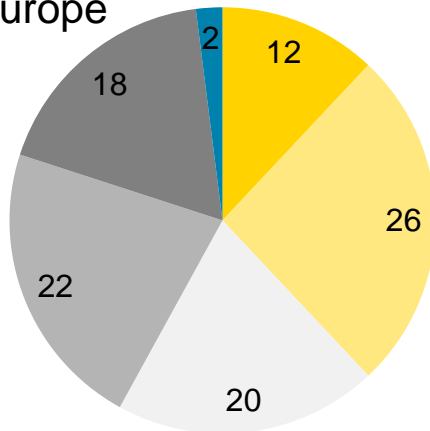
Kenya



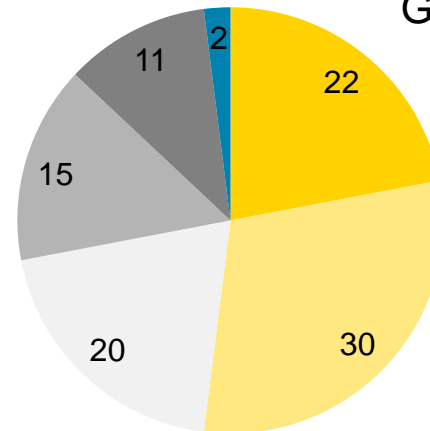
Africa



Western Europe



Global



- % Strongly support
- % Tend to support
- % Neither support nor oppose
- % Tend to oppose
- % Strongly oppose
- % Don't know

Q: To what extent would you support or oppose compensation schemes for whistleblowing being established in your country?

Base: all respondents in Kenya (25), Africa (125), Western Europe (602), Global (1758)

On fraud and corruption learn.....

- ▶ "Those who profit are the ones at the top. They keep the doughnut for themselves and give the hole to the people."

Alexander Ivanovich Lebed
Russian Lieutenant-General and Politician



Questions



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