WRITTEN STATEMENT OF J. MATTHEW ROYAL
VICE PRESIDENT AND CHIEF AUDITOR
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BEFORE THE U.S. HOUSE OF REPRESENATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY

FEBRUARY 26, 2014

Mr. Chairman and Members of the Subcommittee:

Unum is a market leader in disability, life, critical illness and accident insurance with more than 160 years of experience. We work with more than 175,000 businesses worldwide – from Fortune 500 to small businesses – covering more than 22 million people. In 2013, we paid more than $6 billion in benefits.

We are a US based company with approximately 10,000 employees and major operations in Tennessee, Maine, Massachusetts, South Carolina and the UK.

Insurance Fraud

Insurance fraud is the second most costly white collar crime in America exceeded only by tax evasion. Nearly $80 billion in fraudulent insurance claims are processed each year in the United States.[1] This may be a conservative figure based on known acts of insurance fraud. The magnitude of the problem is likely greater because fraud can go undetected and unreported.

To effectively combat insurance fraud, insurers must be capable of quickly identifying potential fraud, have the proper infrastructure in place to adequately manage and respond to fraud risks, and frequently monitor and test anti-fraud control effectiveness. Though disability insurance fraud is less prevalent than in other lines of insurance, at Unum, the significant investment we have made in our anti-fraud program has helped position our company as an industry leader in effectively detecting and preventing fraudulent disability claims. While the amount of total fraud is undeterminable, we estimate less than one percent of the approximately 400,000 disability claims received by Unum each year are fraudulent.

While the vast majority of claims Unum processes are legitimate, even a small percentage of fraudulent claims can increase the cost of doing business and translate into higher premiums or reduced product offerings. From Unum's perspective, strong fraud risk management is critical to successfully managing our business and offering affordable financial protection to our customers. For example, individuals seeking income protection insurance from Unum can typically cover 60 percent of his or her salary for as little as $25-$30 per month.

[1] Based on a 2006 study by the Coalition Against Insurance Fraud, a national alliance of insurance companies, consumer groups, public interest organizations, and government agencies.

Unum's Approach to Fraud Detection and Prevention

Unum's fraud risk management program is managed by the Special Investigative Unit (SIU) reporting to the Chief Auditor. The SIU conducts internal investigations into potentially fraudulent claims for benefits and promotes corporate anti-fraud strategies and initiatives designed to assist employees in detecting and preventing insurance fraud. The following summarizes key aspects of Unum's fraud detection and prevention program.

Policies and Procedures

Unum maintains anti-fraud policies which include corporate-wide fraud prevention strategies and help ensure compliance with applicable insurance fraud laws and regulations. The SIU makes a fraud detection and response guide available to all employees to help them recognize and report suspicious and fraudulent claims.

The company also maintains a toll-free fraud reporting hotline, and encourages anyone with information about insurance fraud to report the information anonymously and confidentially. Fraud reporting hotlines are one of the most effective tools organizations can implement to detect and prevent fraud. From 2011-2013, Unum received over 350 fraud hotline reports, many of which generated credible leads in investigations into potentially fraudulent disability claims.

Training and Education

Unum's comprehensive anti-fraud training program is designed to reinforce our company's fraud prevention strategies and ensure that employees possess the requisite skills to identify and report insurance fraud. Anti-fraud training programs are updated regularly to include new regulations, corporate anti-fraud policies, procedures, and controls, fraud schemes and methods, emerging fraud trends and indicators, fraud detection methods, and fraud reporting procedures.

Unum also designates certain employees, based on their job function within the company, as integral anti-fraud personnel. These employees, who include, among others, claims processors, underwriters, and certain corporate personnel, receive mandatory anti-fraud awareness training at regular intervals.

Predictive Analytics

Unum uses predictive analytics to continuously monitor disability claims for potential fraud. We developed our own model using data from our own historical fraudulent claims. The model analyzes our claims inventory contemporaneously scoring each claim based on how closely it resembles customized fraud attributes. Higher scores indicate greater fraud potential. Claims reaching or exceeding a baseline score are reviewed by trained fraud analysts in the SIU. Model updates incorporate data from newly reported or updated claims into the models' algorithms to improve scoring accuracy.

Unum's predictive model is a custom-built, internal model that integrates claims data from many sources. It analyzes multiple data points simultaneously to identify subtle variations and patterns among the data elements indicative of possible fraud.

By using predictive analytics, fraud analysts can review thousands of claims to determine if additional investigation is warranted. Approximately one out of five claims reviewed by our

fraud analysts result in additional investigation for validity or fraudulent activity and accounted for 30% of the total amount of potential fraudulent loss activity detected and reported by Unum in 2013.

Investigations and Cooperation with Government Agencies

Most states require licensed insurance companies to report suspected fraudulent claims. In addition, an increasing number of states require insurance companies to maintain an SIU to investigate and report suspected fraud to designated state fraud bureaus and law enforcement agencies.

Unum's SIU investigates all types of suspected fraud, including suspicious and fraudulent disability claims, suspected fraud involving employees, insurance agents and brokers, suspected fraud resulting from misrepresentations in the application, renewal or rating of insurance policies. Instances of possible fraud are referred to the SIU from the predictive analytics unit, employees across the organization, other SIU departments, and government agencies.

Unum works closely with law enforcement to ensure those who commit insurance fraud are held accountable. The SIU reports all suspected fraud to law enforcement and/or the appropriately designated regulatory agency responsible for the investigation and prosecution of insurance fraud. We frequently provide disability fraud training to key law enforcement agencies and actively assist in investigations and prosecutions of insurance fraud. Our anti-fraud initiatives are strongly focused on maintaining a strong private-public partnership to combat fraud and share information about emerging fraud trends and risks.

In conclusion, while the overwhelming majority of the claims Unum receives are legitimate, there are bad actors who seek to game the system and file or facilitate fraudulent claims. Unum has a comprehensive approach to fraud prevention which includes establishing effective policies, continuous employee training, and the use of advanced technology and modern information sources. There is a strong business case for our approach to fraud prevention, and it plays a role in keeping group disability insurance policies very affordable. Unum stands ready to work with this Committee and the Social Security Administration to share our best practices and experience.