



CANATICS

Canadian National Insurance Crime Services

Introduction to IRMAC

February 2020

By Ben Kotic, President & CEO

Auto Insurance and Fraud in Ontario

- Fraud is a large and growing problem in the auto insurance system, contributing to decreased road safety and Ontario's 9 million drivers having the highest premiums in Canada
- The insurance industry faces increased pressure to reduce the costs of fraud, which are passed onto policy holders through premiums. Non government insurers account for:
 - ~\$25B in Auto Direct Written Premium (DWP) in CANADA
 - ~\$14B in Auto DWP in Ontario
 - ~\$1.6B in estimate Fraud Costs in Ontario
 - ~\$235 in additional premium per vehicle
- Recently the government renewed their commitment to supporting the fight against auto insurance fraud as part of planned transformative changes to the province's auto insurance system – “Putting Drivers First Plan”
- CANATICS is one of the ways the industry is responding to these issues

CANATICS – Overview

Canadian National Insurance Crime Services (CANATICS)

- Industry-developed Not-for-Profit solution designed to help combat auto insurance fraud
- Incorporated in 2013 - Operating since mid 2015
- Governed by Board composed of Insurer representatives
- Membership open to all insurers
- Eight current members represent ~75% of the Ontario auto insurance market
- Designed to have a small number of staff supported by Insurer resources with primary cost coming from outsourcing of analytics and hosting
- Uses state-of-the-art analytical tools to identify potentially suspicious claims in insurance industry pooled data, to facilitate further investigation by individual insurers

Vision: To combat insurance crime for the benefit of Canadians

Mission: To support the fight against insurance crime by providing individual insurers, and the industry, with superior intelligence derived from analytics performed on industry pooled data with an unwavering focus on data quality, privacy and security

CANATICS – Delivery Strategy

- The CANATICS Board has maintained the following requirements for the organization
 - Keep the organization small
 - Obtain back office services from IBC (chargeback model)
 - Leverage resource from the Members
 - Outsource all Analytics and Hosting
- CANATICS has built a very small team that coordinates all the moving parts
 - President & CEO
 - Chief Privacy Officer and Legal Counsel
 - VP Analytics and Operations
 - HCAI Expert (AB)
 - Industry Triage and Referral Lead
 - Crime Analyst
 - Analyst
 - Office Manager

CANATICS – Focus

✓ CANATICS is focused on **Organized Fraud and Premeditated Fraud**

- The systemic abuse most commonly associated with sophisticated crime rings that target multiple insurers and claims
- Can include drivers, passengers, clinics, health care providers, lawyers, etc.
- Often involves an unsuspecting victim (e.g. staged collision)

✗ CANATICS is **NOT** concerned with **Opportunistic Fraud**

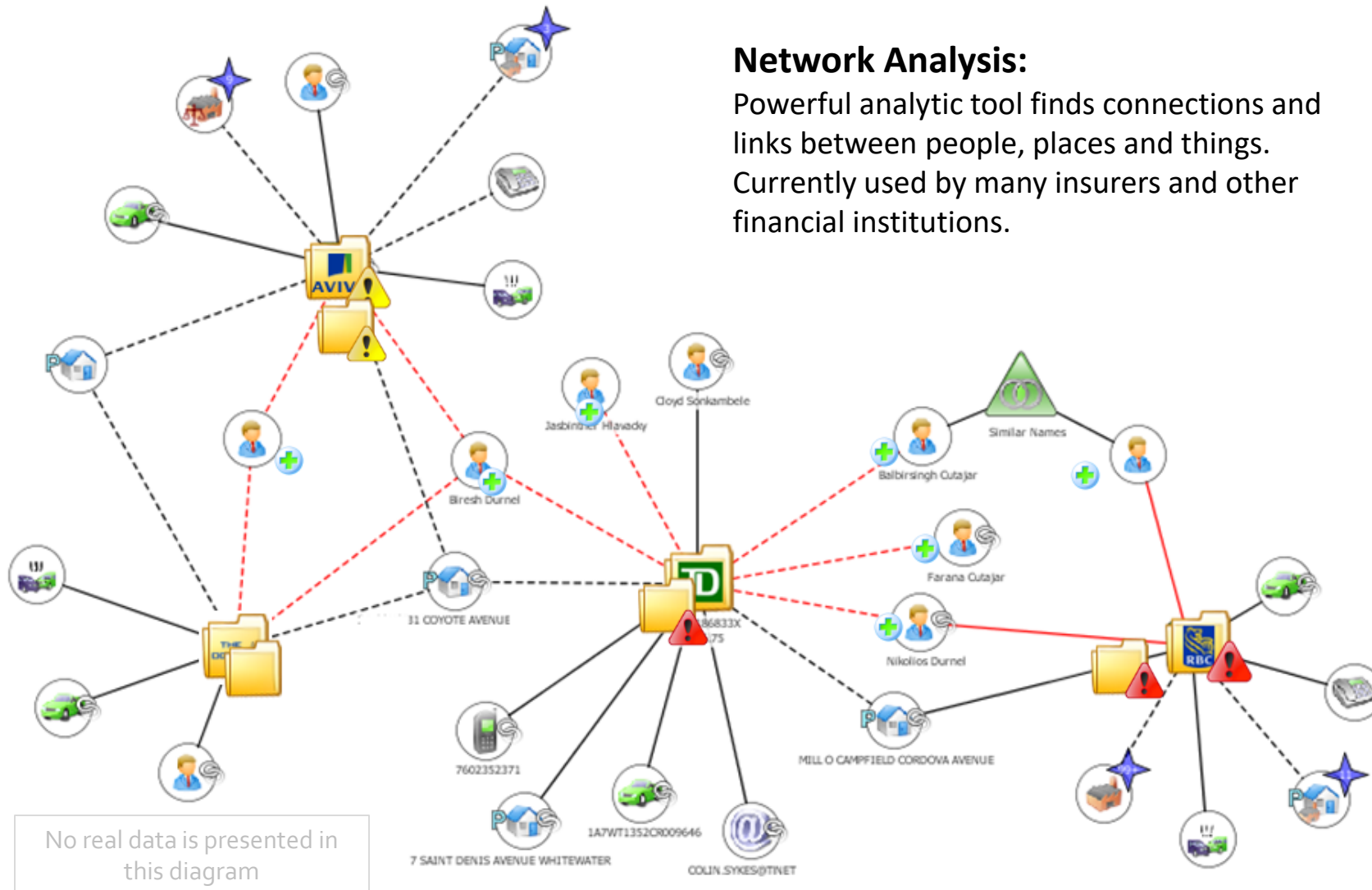
- Example of opportunistic fraud is an otherwise legitimate claim being inflated by the individual making the claim (e.g. car is stolen but value of the equipment is exaggerated)
- Insurers may investigate opportunistic claims on their own internal detection

*This is not about insurers trying to deny the claims of innocent victims. **CANATICS is helping the insurance industry combat fraud**, which is in the best interests of the broader public, the vast majority of whom are honest policy holders.*

Primary Analytic Technique – Network Analysis

Network Analysis:

Powerful analytic tool finds connections and links between people, places and things. Currently used by many insurers and other financial institutions.



Network Analysis

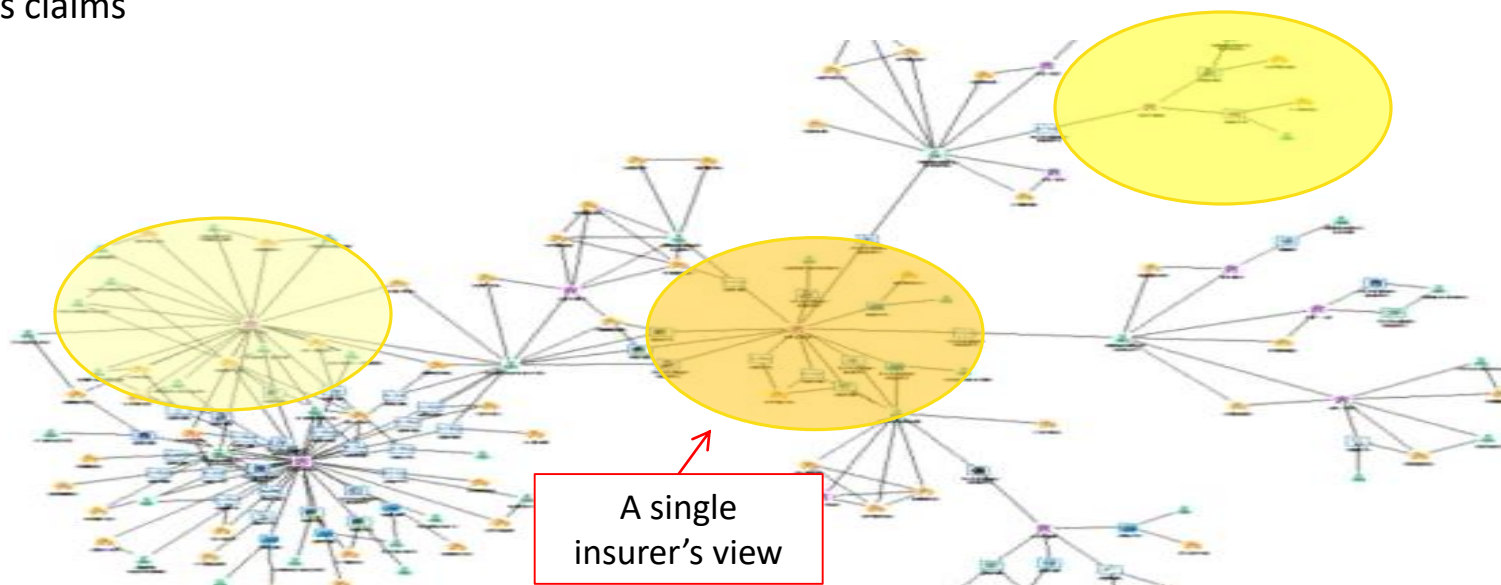
Why it is needed

- Fraudulent claims tend to cluster together in networks because criminals
 - Re-use phone numbers
 - Re-use addresses (likely to be PO box or inconsistent commercial address)
 - Re-use stolen identity information
 - Use a “template” for a claim that they know will avoid triggering the existing rules
 - Create bursts of claims to flood the system because they know claims have to be paid within a certain amount of time
- Only with well-formed entities, networks and indicators can we detect these patterns and relationships.

The Power of Data Pooling

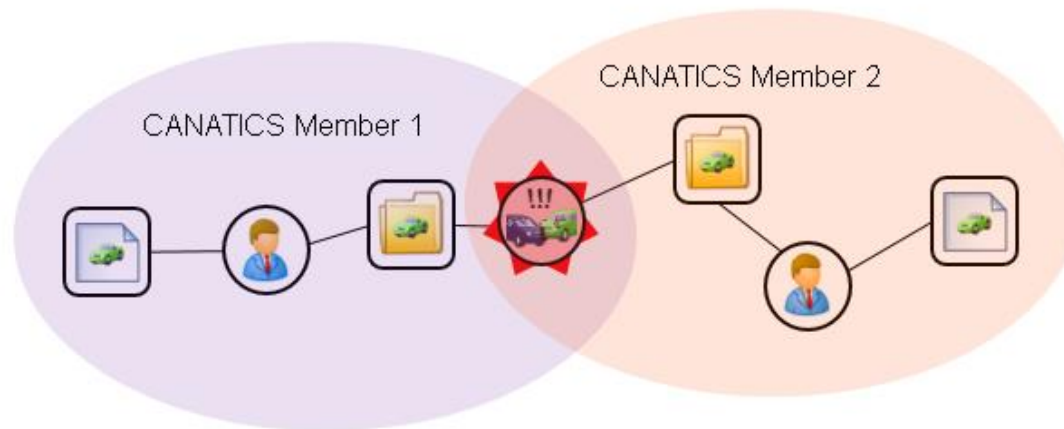
Pooling Data

- Network analysis by a single insurer can strengthen detection and investigative efforts but often does not provide the full picture
- When insurers use only their own data they run the risk of “looking through a keyhole” and missing the true extent of the fraud
- Fraud detection is evolving towards insurers collaborating and pooling their data such that patterns between claims filed with various insurers can be identified and assessed
- Pooling data greatly increases the ability to identify suspicious claims

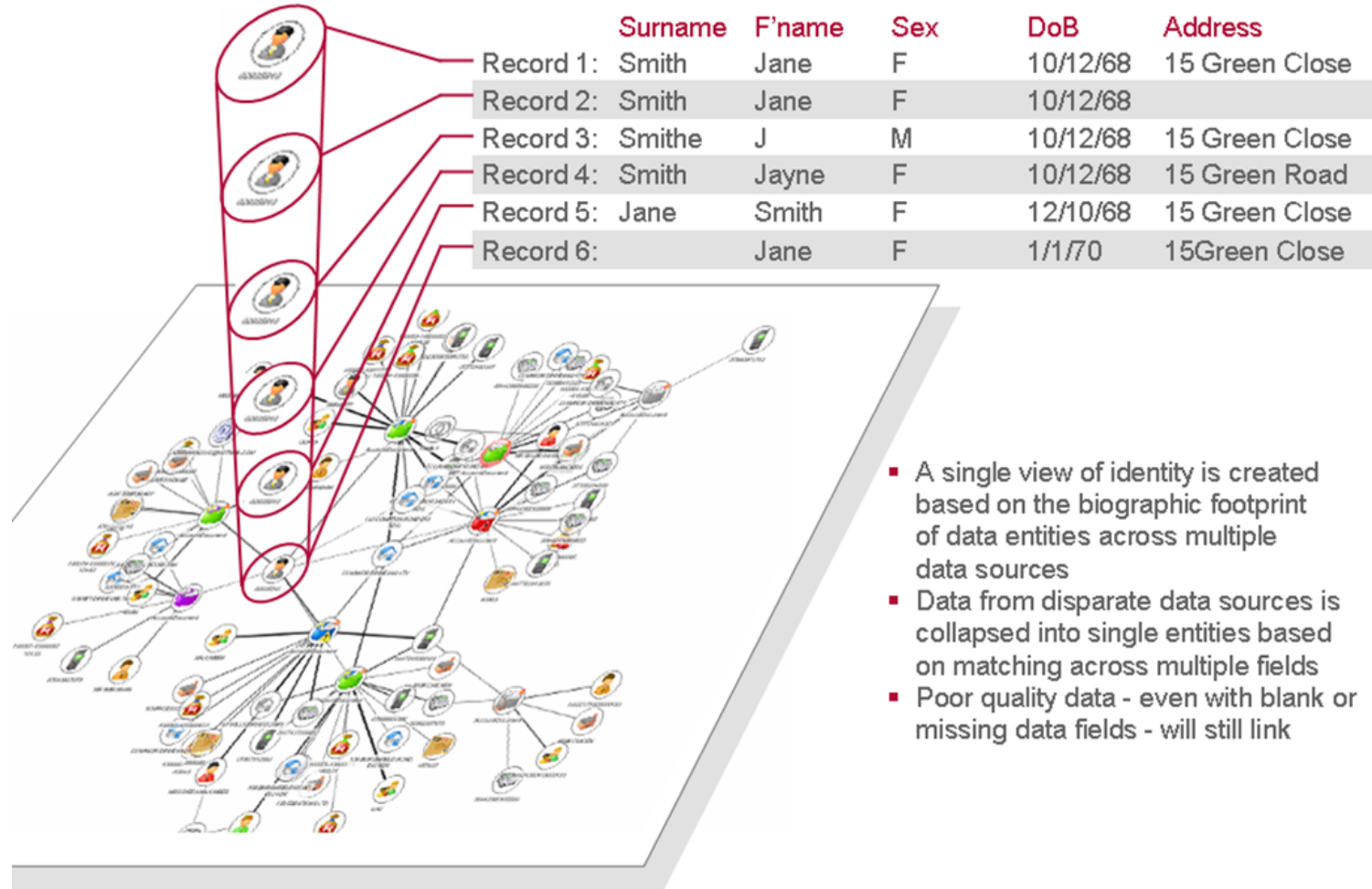


Data Pooling Overview – 2

- Detection logic considers behaviors across multiple members
- Behaviors associated with a suspicious event are automatically alerted to all members with claims
- Each member sees their own documents and entities, plus those of other members within two steps of an alerted claim.
- Other members' data is selectively masked even when visible via the two-steps rule, to protect sensitive data such as health care diagnoses, or policy end dates.



Data Pooling Entity Resolution – 1



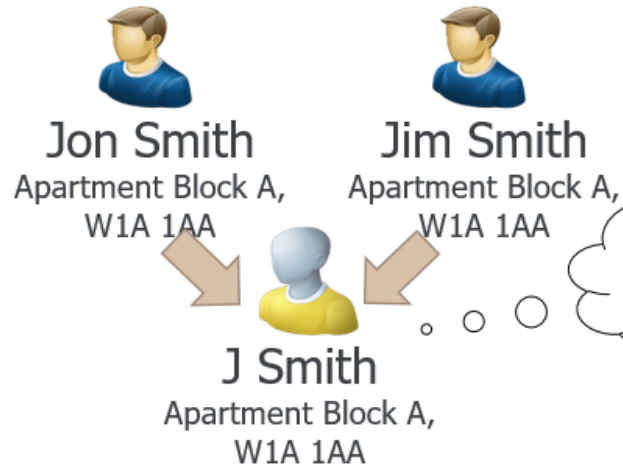
- A single view of identity is created based on the biographic footprint of data entities across multiple data sources
- Data from disparate data sources is collapsed into single entities based on matching across multiple fields
- Poor quality data - even with blank or missing data fields - will still link

Data Pooling

Entity Resolution – 2

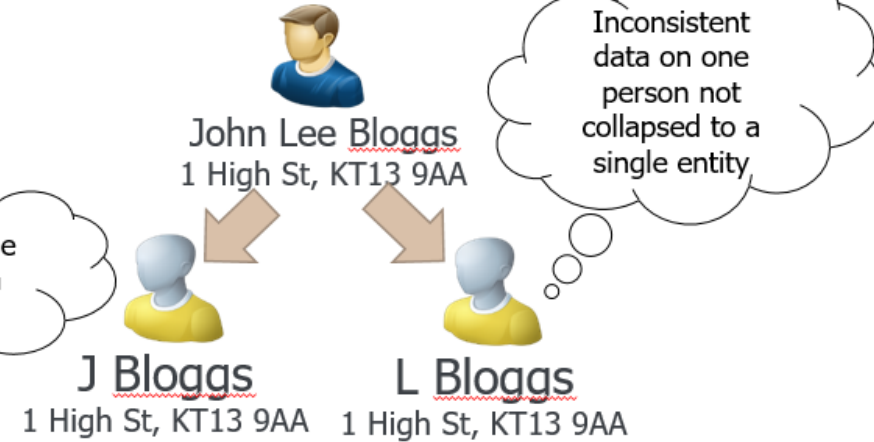
- Entity resolution and matching is not an exact science;
- Balancing act between two scenarios:

Over-linking:

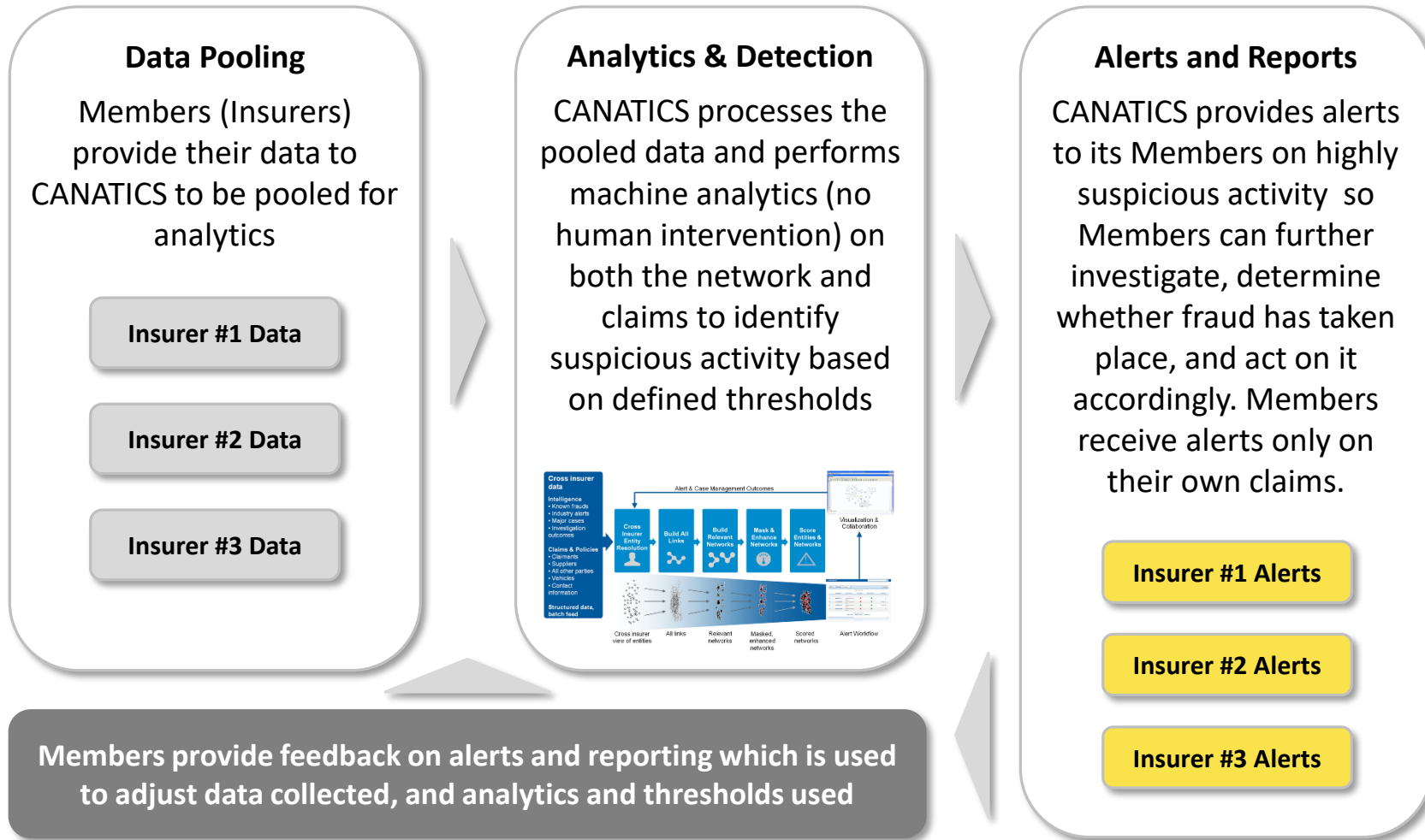


Different people
collapsed to a
single entity

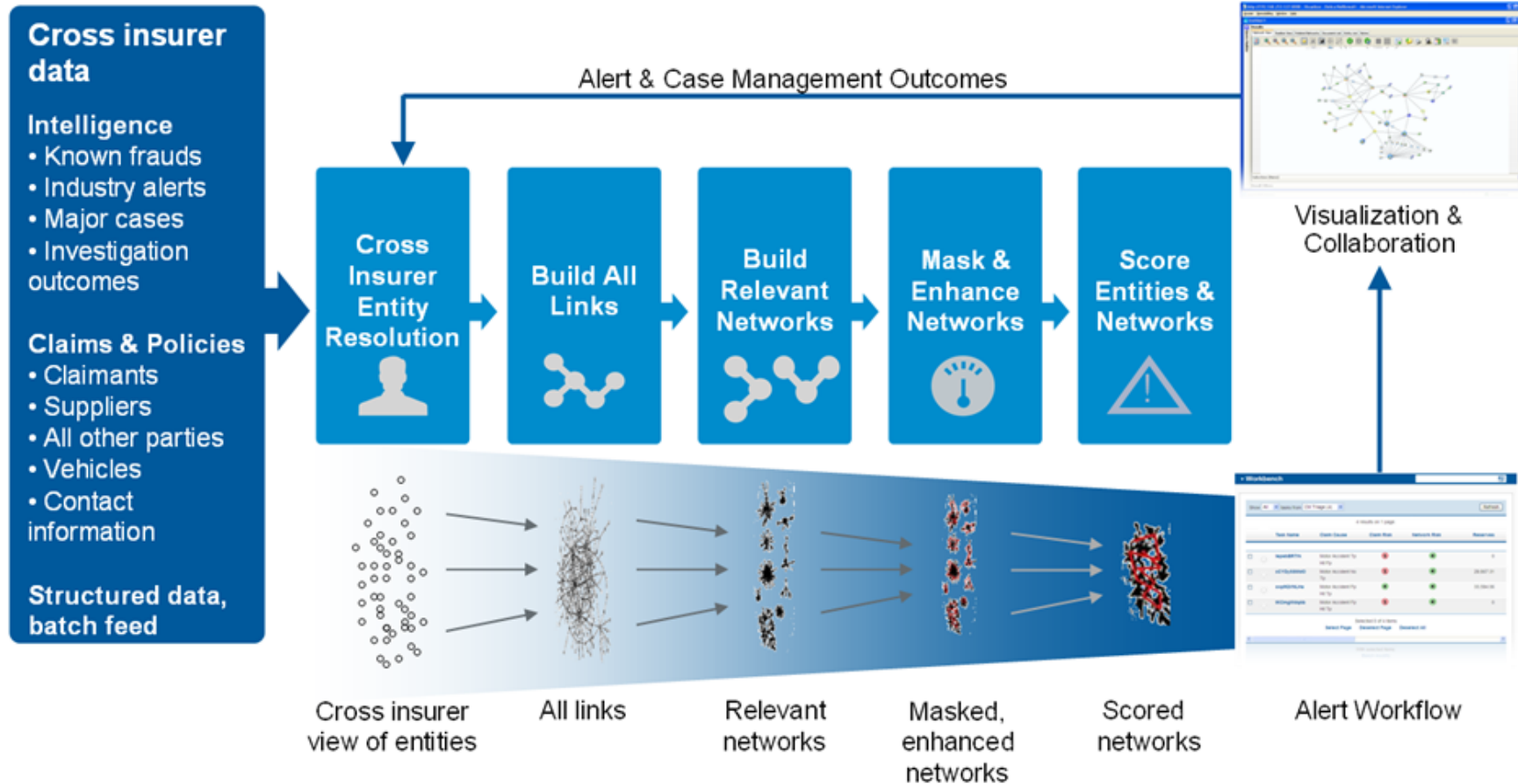
Under-linking:



How CANATICS Works: Overview



How CANATICS Works: Overview – 2



Collaboration – Stakeholders in Ontario

Members



Members also include:
RBC, now part of Aviva
State Farm, now part of
Desjardins

Industry and Government Collaboration



Collaboration – Around the World

- Collaboration is one of the most effective tools for combatting fraud
- Fraud detection through data analytics of pooled industry data is being successfully used in many other jurisdictions
- Over 20 countries have created, or in the process of creating, organizations that enable the insurance industry to collaborate in the fight against auto insurance fraud through, amongst other initiatives, data pooling & analytics:
 - Australia, Belgium, Canada, Croatia, Denmark, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, New Zealand, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, USA

***Collaboration through Data Pooling is
Emerging as a Leading Practice***

Collaboration – Service Providers

- CANATICS had many areas requiring critical focus: consortium dynamics, government regulators, federal and provincial privacy officers, lawyers, member data extraction, etc.
- CANATICS decide early on to outsource the analytics and technology. The selection of our primary analytics and technology vendor was likely the most critical of our start up decisions
- The Board and CEO felt that risk mitigation and time to market were to two most important factors
- CANATICS chose BAE Systems Applied Intelligence
 - Initial (2013) – 5 year BAE NetReveal On Demand (NROD) managed service contract
 - Extended (2018) – 3 years to end of 2021
- We had one opportunity to get it right so our vendor had to have:
 - A proven solution (BAE has a solution not just a set of great tools)
 - A great team (BAE's teams have a history of working together - not just bright individuals)
 - A proven delivery track record - time to market was a key criteria (BAE had several implementations locally and worldwide of their solution – including a consortium)
 - A true desire to partner with us and build a trusted long term relationship

CANATICS – Privacy Overview

- CANATICS processes and stores the customer personal information (PI), provided by its Member insurers, as part of the data analytics and alerting activities CANATICS performs on behalf of its Members
- CANATICS' focus on privacy started in the formative stages taking a “Privacy Smart from the Start” approach to ensure that:
 - Privacy safeguards are built into all the elements of both the tool and the organization
 - Privacy and the protection of PI is embedded from “cradle to grave”
 - CANATICS is compliant with the Personal Information Protection and Electronic Documents Act (PIPEDA) and OPCC Privacy Governance Guidelines
- Going above and beyond
 - Privacy by Design (PbD) is an internationally recognized, proactive approach to privacy protection that goes beyond compliance with federal and provincial privacy legislation
 - 2014 – Awarded the “Privacy by Design (PbD) Ambassador” status for adhering to the gold standard in privacy protection
 - 2016 – Received Privacy by Design Certification from Ryerson’s Privacy & Big Data Institute
 - 2019 – Currently certifying with new international privacy body

CANATICS – Privacy Data Minimization

- CANATICS solution uses the minimal amount of data required in order to get meaningful results for its data analytics and quality alerts
- To arrive at the minimal data set currently used, CANATICS underwent an extensive data minimization whereby CANATICS assessed each potential data element that an insurer collects, to determine:
 1. The probative value of the data element, and
 2. Potential proxies, and
 3. The impact to privacy
- These three key factors determined whether the particular data element was included or excluded from the data set (e.g. payment information, while hugely beneficial, was excluded)
- New data elements will be assessed as they come forward through the same process, and the minimal data set adjusted accordingly

Collaboration – Industry Triage & Referral (ITAR)

- In addition to providing personalized alerts to all Members on their specific claims, CANATICS also facilitates the cross insurer assessment of suppliers through an Industry Triage & Referral (ITAR) process
- ITAR has generated significant momentum and perceived value
- The ITAR has met ~3 times per month since it began in February 2018
- On average, the ITAR reviews and triages 9 new cases a month, of which nearly half have resulted in referrals to the IBC to date
- A small number of additional cases have led to investigations by one or more insurers, where there is insufficient cross-industry value for an IBC-led investigation

Collaboration – Working Together with Industry

- Once CANATICS makes a referral to IBC, our work on that case stops. Our mandate is identification, not investigation.
- The industry has asked IBC to create and operate an Investigation Coordination Service that will leverage the investigative capacity of the insurers to handle complex cases referred by CANATICS and/or other means of identification
- Depending on the nature of the cases the investigation, coordinated by IBC, could lead to:
 - Criminal charges
 - Regulatory reform (e.g. working with health care regulating colleges to change billing practices)
 - Administrative penalties (currently under FSRA's mandate)
 - Civil litigation
- The Investigation Co-ordination Service starting take action on CANATICS referrals
 - A recent Proof of Concept case resulted in the disruption of a storage facility whose billings to the industry dropped 80% during the investigation resulting in several million in benefit to the industry

Collaboration – Working Together with Government

- Collaboration with FSRA
 - We have been submitting recommendations, at every opportunity, to the government regarding strengthening the fraud mandate of FSRA and with a view to ensuring that the rule making authority has the power to create the type of environment conducive to maximizing the potential value of fraud analytics
 - We are encouraged by the importance placed on anti-fraud in FSRA's mandate and excited about working with FSRA on exploring opportunities, short and long term, in support of their mandate
- We are looking for ways to extend the collaboration, a necessary ingredient for success, to the police, prosecution and the Serious Fraud Office

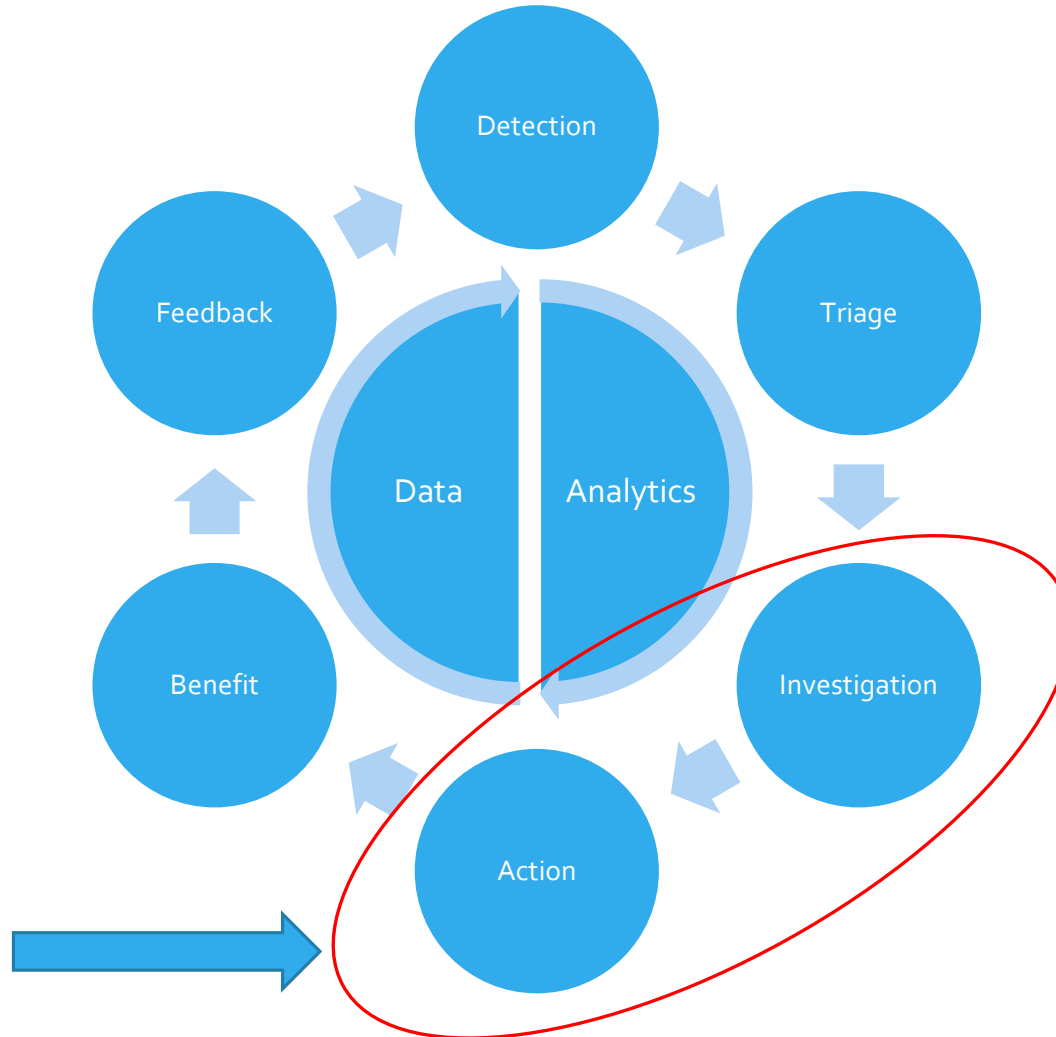
Benefit Value Chain – The Need for Collaboration

Without Action
there is no Benefit!

How can we
collectively improve
on our ability to take
Action?

**Answer is
Collaboration**

Outside of
CANATICS Mandate



Press Release: IBC and CANATICS combine efforts to fight fraud

- **FEBRUARY 3, 2020 (TORONTO)** – The Insurance Bureau of Canada (IBC) Board of Directors agreed to create an industry advisory group to lead the development of a strategy to ensure a smooth transition of anti-fraud services to a single entity. Currently, two entities, IBC and Canadian National Insurance Crime Services (CANATICS), provide anti-fraud services to the industry.
- “Fraud costs Ontario drivers alone over a billion dollars every year. But it’s more than a financial problem. For example, insurance fraud cases needlessly tie up courts, fraud that involves staged collisions siphons emergency services away from those who truly need them. Combining the expertise of IBC and CANATICS will better align with insurers’ own efforts to fight fraud and enable data sharing that will make it easier to detect and prevent fraud,” said Don Forgeron, President and CEO, IBC.
- The advisory group will include senior members of the insurance industry, with representatives from IBC and CANATICS. The group will begin meeting in late February or early March.
- “Fraud continues to grow more pervasive and more sophisticated, and it’s time to up the ante in our fight against it. Our industry has a role to play in protecting innocent consumers from the impacts of fraud. Combining the efforts of IBC and CANATICS will strengthen the industry’s fight against this type of crime,” said Jason Storah, Chair of the Board of CANATICS, and CEO, Aviva Canada.
- “IBC and CANATICS continue to collaborate during this time of business as usual,” added Don Forgeron.

CANATICS – Conclusion

- CANATICS
 - Is an example of the industry coming together to attempt a creative and innovative approach to the fight against auto insurance fraud through a “coalition of the willing”
 - Is open to all insurers, large and small, and interest is high. We’ve succeeded in pooling significant details about policies and claims for ~75% of the DWP in Ontario
 - Is well positioned for growth (new members, new jurisdictions, new data) and support of industry collaboration
- The CANATICS Fraud Analytic Solution is being used by its members to drive detection and/or effectively support investigation
- Fraud and Fraud detection is an ever evolving “cat and mouse” game so we are constantly on the look-out for ways to improve through new technologies and data
- There is no doubt that Fraud Analytics (detection) is the way of the future but it is only one piece of the solution
- Increased collaboration across all stakeholders in the industry is essential to fighting fraud and abuse in the system at the industry level (Body Shops, Providers, etc.)



CANATICS

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Contact Information

Ben Kusic

President & CEO

bkusic@canatics.ca