Examining Life Insurance Fraud Cases Clearance among Life Insurance Companies in Kenya

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Abstract:
The insurance sector in Kenya has invested in fraud response such as forensic investigation, hopefully, to achieve fraud case clearance. Unfortunately, a modest amount of parenthesis literature addresses the extent of fraud case clearance. Further, the available studies conducted have not examined the clearance rate of life insurance fraud cases. This study, therefore, advanced the knowledge of life insurance fraud by examining the insurance fraud cases clearance among Life Insurance Companies in Kenya. A descriptive survey design that utilizes quantitative research was adopted in this study. Data were collected using questionnaires from 21 life insurance companies with their head office in Nairobi. Data were analyzed using the latest Statistical Package for the Social Sciences (SPSS) version V28. Descriptive statistics namely frequencies and percentages were conducted to understand the rate of fraud case clearance. The findings were presented in figures and tables from which conclusions were drawn. The findings revealed a clearance rate of 75.68%. The current study findings suggest a high fraud case clearance rate among life insurance companies in Kenya. The insurers are required to document cases of fraud as they happen to be effective and efficient in establishing the rate of case clearance internally. The Insurance Regulatory Authority also needs a mechanism to collect data on case clearance in order to establish the rates on a yearly basis so as to objectively measure case clearance among life insurers.

Key Word: Clearance rate; forensic investigation; Insurance Regulatory Authority; life insurance fraud.

I.   Introduction

The mainstream studies that have assessed case clearance rates indicate that investigation has an effect on case clearance (Pizarro, 2018). The investigation process involves the identification, preservation, collection, examination, analysis and presentation of a report. Investigators often reconstruct crime scenes within the investigation timelines to understand crime circumstances (Cronin, Murphy, Spahr, Toliver, & Weger, 2007). Therefore, high fraud cases clearance can be an indicator of efficiency by the investigation teams.

It is also noted that there is a growing body of evidence on cases clearance of various typologies of crime globally. For instance, the Federal Bureau of Investigations (FBI) (2011) suggests that different crimes can bring about an increased or decreased cases clearance. Sakiyama (2010) discovered that in Nevada, the clearance rates for violent crimes (43%) are higher than for property crimes (21%). In the USA, the murder cases clearance rate (80%) is the highest and motor vehicle theft (7%) is the lowest. Tied to the different crime clearance rates variability is the perception that cases with different characteristics are more likely to be cleared differently. This is exemplified by the fact that insurance fraud generally entails deception and trust, thus the fraud victims are repeatedly unaware of victimization and are unlikely to report fraud. As such, it is probable to presume that life insurance fraud cases clearance rates are likely different from other crime types. A basic analysis should therefore start by examining the extent of fraud cases clearance among life insurance companies. To date, the available studies conducted have not examined the clearance rate of life insurance fraud cases. This study advanced the knowledge of life insurance fraud by examining the clearance rates for life

insurance fraud cases in Kenya and evaluating whether they were significantly higher or lower when compared among insurance companies as well as when compared to other rates of cases clearance of various typologies for example, violent at 43% and property crimes at 21%. Therefore, the research question was formulated: what is the clearance rate of fraud cases among life insurance companies in Kenya?

II. Literature Review

Understanding the rate of fraud case clearance rate is crucial for various organizations. Cases clearance rate can inform the efficiency of the investigation team in solving fraud (Worrall, 2016). The research findings can inform individual insurance companies and government agencies on the rate of fraud cases clearance among life insurance companies in Kenya and therefore some may innovate to solve fraud cases whereas others may improve their existing strategies on fraud investigation (Odhiambo, 2016). Studying cases clearance may also enable policymakers to identify the areas of forensic investigations that may require policy overhaul, reformulation and implementation and post-implementation review (Braga & Dusseault, 2018). Agencies such as Insurance Regulatory Authority and life insurers can understand the solved versus the registered cases.

III. Material and Methods

This study adopted a descriptive survey design that involves quantitative approaches in research. Quantitative research characteristically reduces the data to means, medians, correlations, and summarizing statistics (Leedey, 2014). The study was conducted at 21 life insurance companies with their head operation offices based in Nairobi County, Kenya**.** Their investigation departments are centralized, and the decision-making powers are retained in the head office. The insurance companies in Kenya are regulated and supervised by the Insurance Regulatory Authority. The current study employed a census study approach to target all 21 life insurers in Kenya. Out of the 21 life insurance companies, only 11 completed the questionnaires. The study also targeted the head of the security and investigation department as well as the data on reported insurance fraud cases for the years 2018 and 2019. The data was collected by a checklist to ensure that the incoming fraud cases, as well as, all the resolved, disposed, or closed cases for the years 2018 and 2019 are captured. The computation of cases clearance is as indicated below.

Cases clearance % = (A + B) / (C + D) * 100

> A = Cases solved within the time period
>
> B= Cases closed or suspended in the time period
>
> C = Cases opened within the time period
>
> D= Cases reopened within the time period

Data was analyzed using SPSS version 28. Descriptive data analysis was utilized to establish fraud cases clearance among Kenyan life insurance companies. Percentages of frequencies were applied to determine fraud cases clearance rate.

IV. Result

This study sought to examine the rate of life insurance fraud case clearance among life insurance companies in Kenya. This prompted a descriptive analysis to establish fraud cases clearance among Kenyan life insurance companies. Percentages of frequencies were applied to determine the fraud cases clearance rate. Trend analysis was also conducted to determine the progression of the clearance of cases across different quarters of the year, and in comparison, with the two years 2018 and 2019 in which data was captured. The first part of this analysis comprised computing the sum totals of the cases opened; reopened; solved; cases disposition as well as cases closed. This information was summarized in Table 1.

Table 1: Summary of Categories

Category of the case	Quarter 1	Quarter2	Quarter3	Quarter4	Total
Cases Opened					
2018	376	164	268	230	1,038
2019	398	579	382	188	1,547
Cases Reopened					
2018	197	35	15	25	272
2019	156	14	4	2	176
Cases Solved					
2018	289	165	223	226	903
2019	232	421	360	164	1,177
Cases Disposition					
2018	195	35	15	26	271
2019	153	13	4	1	171
Cases Closed					
2018	93	67	95	90	345
2019	103	121	107	107	438
Total	2,192	1,614	1,473	1,059	6,338

The findings in Table 1 suggest that the majority of the cases were handled in the first quarter while the least was registered in the last quarter. Further, a computation of fraud case clearance rate across life insurance companies was conducted based on the sample of $n = 11$ respondents. This information was summarized in Table 2.

Table 2: Analysis of Life Insurance Fraud Case Clearance Rate

Clearance rate	Frequency	Percent	Valid Percent	Cumulative Percent
45.83	1	5.9	9.1	9.1
61.70	1	5.9	9.1	18.2
64.00	1	5.9	9.1	27.3
70.34	1	5.9	9.1	36.4
75.60	1	5.9	9.1	45.5
80.19	1	5.9	9.1	54.5
86.40	1	5.9	9.1	63.6
92.34	1	5.9	9.1	72.7
93.69	1	5.9	9.1	81.8
96.45	1	5.9	9.1	90.9
100.00	1	5.9	9.1	100.0
Total	11	64.7	100.0	

The findings revealed that the clearance rate for the individual life insurance companies were registered as 45.83%, 61.70%, 64.00%, 70.34%, 75.60%, 80.19%, 86.40%, 92.34%, 93.69%, 96.45% and 100%. The majority had a case clearance rate of above 70%. The findings also revealed that the highest case clearance rate was 100% whereas the lowest was 45.83%.

Moreover, the standard deviations (*SD*) were computed in order to establish variations in the values of the clearance rates that were computed from the sample data. This computation was based on the sample of $n = 11$ respondents. This information was summarized in Table 3.

Table 3: Standard Deviation of Life Insurance Fraud Case Clearance Rate

Quarter	2018	2019	Overall
Q1	38.64	34.59	36.62
Q2	86.46	30.59	58.53
Q3	55.99	33.96	44.98
Q4	52	80.82	66.41
Overall	**58.27**	**44.99**	**51.63**

The findings revealed that the highest standard deviations were recorded for the scores relating to the second quarter of the year 2018 and the fourth quarter of the year 2019. This was indicative of the inconsistencies and more variation in the discourse of the data given by the respondents. Conversely, a high level of consistency was observed for the scores of the second and third quarters of the year 2019 having registered the least value of the standard deviation. Overall, the least value of standard deviation was associated with the first quarter of both years suggesting consistency in the scores of the clearance rate; similarly, the lowest value of standard deviation was associated with the year 2019 again indicating that the values of the case clearance rates were more consistent for this year.

Descriptive analysis for Life Insurance Fraud Case Clearance Rate

The descriptive analysis for life insurance fraud case clearance comprised the use of both arithmetic mean and standard deviation to establish variations in the scores of the computed case clearance rates. The mean values computed from clearance rate computation of formula were summarized in Table 4.

Table 4: Mean Case Clearance Rate

Quarter	2018	2019	Overall
Q1	66.67%	60.46%	63.57%
Q2	73.45%	75.92%	74.69%
Q3	81.66%	77.31%	79.49%
Q4	91.45%	78.52%	84.99%
Overall	**78.31%**	**73.05%**	**75.68%**

After making comparisons on clearance rates across the different quarters, it was established that the first quarter registered the least case clearance rate both in the year 2018 and 2019. This implies that the majority of the cases were handled in the first quarter. This was further explored using time series data presented in Figure 1 in order to understand the underlying trend. The trend analysis revealed that in both years, there was a sudden rise in case clearance between the third and fourth quarters.
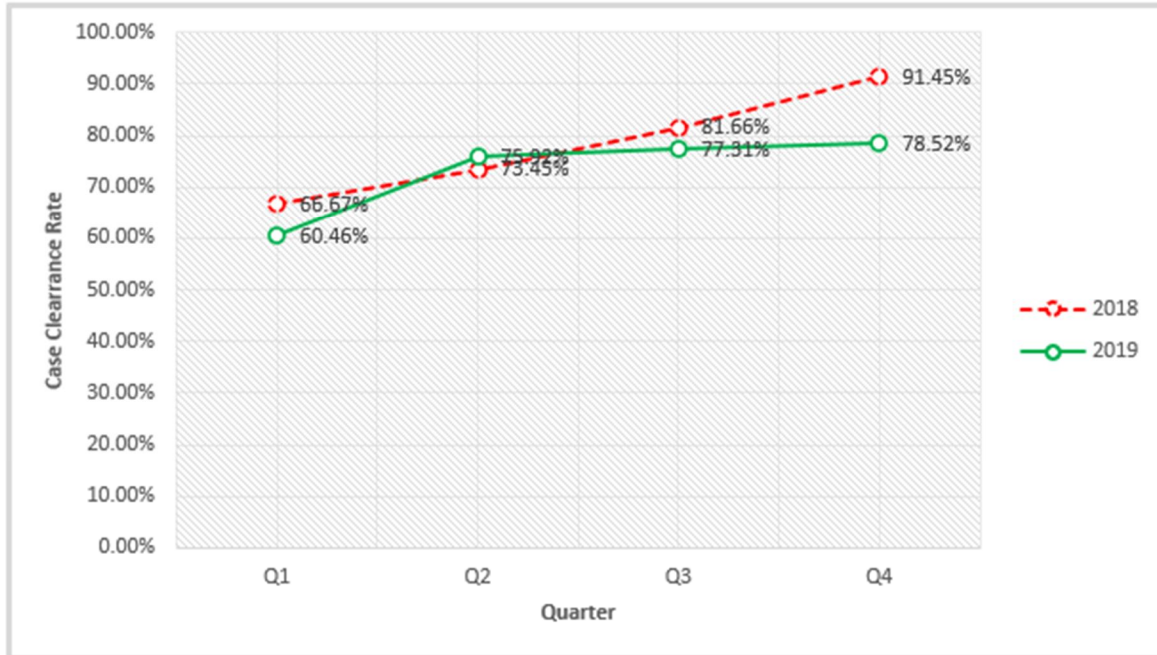
Figure 1: Trend Analysis

V. Discussion

This study examined the rate of fraud case clearance among life insurance companies in Kenya. Extant literature on case clearance has documented the rates of homicide case clearance (e.g. murder and manslaughter), violent crimes (e.g. robbery and aggravated assault), and property crime (e.g. burglary and motor vehicle theft), but the rate of fraud case clearance remains undocumented (Archambault,2010; Federal Bureau of Investigations (FBI), 2011; Sakiyama, 2010). In addition, even in instances where scholars have documented homicide, violent, and property case clearance, they have only focused on those crimes investigated and cleared by law enforcement agencies. Thus, the current literature on case clearance has not only failed to document the rates of fraud case clearance by law enforcement, but little is known about rate of fraud case clearance by the fraud and investigations departments across life assurance companies in Kenya. Thus, the findings of this study discovered a mean rate of fraud case clearance of 75.68% for the life insurance companies in Kenya. From the study, the rate of fraud case clearance appears to be higher compared to rates of case clearance in violent and property crimes. Sakiyama (2010) found that the clearance rates for violent and property crimes were (43%) and (21%), respectively. In addition, the Federal Bureau of Investigations (FBI) (2011) also noted that criminal scenarios can increase or decrease case clearance. Therefore, it might not be unexpected to have a high fraud case clearance rate. Meanwhile, there are feelings that reporting and investigating life insurance fraud concepts are sensitive, and every company should have a dedicated investigation department that records all the data regarding fraud suspicions. Generally, the observed high clearance rate across the insurance companies was because they are privately owned and regulated and seek to create value. Therefore, they are required to document cases of fraud as they happen. They may also be effective and efficient in establishing the rate of cases clearance internally because they are in control of the data. Based on the findings, the IRA as a regulator may need a mechanism to collect data on case clearance and establish the rates on a yearly basis so as to objectively measure case clearance among life insurers. There is also a need for more research to determine the rate of case clearance of other types of fraud. However, the study limitation is that data was drawn from a small sample which might affect the generalizability of statistical interpretation.

VI. Conclusion

This study sought to examine the rate of fraud case clearance amongst life insurance companies in Kenya. Analysis of the findings revealed that a clearance rate of 78.31% and 73.05% were recorded for the years 2018 and 2019 respectively. Thus, the findings of this study discovered a mean rate of fraud case clearance of 75.68% for the life insurance companies in Kenya. This suggests a high fraud case clearance rate among life insurance companies in Kenya. The insurers are required to document cases of fraud as they happen to be effective and efficient in establishing the rate of cases clearance internally. Further, the IRA as a regulator may put in place a mechanism to collect data on case clearance and establish the fraud cases clearance rate on yearly basis. Future research can also determine the rate of case clearance of other types of fraud such as corruption and financial statement deception.

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