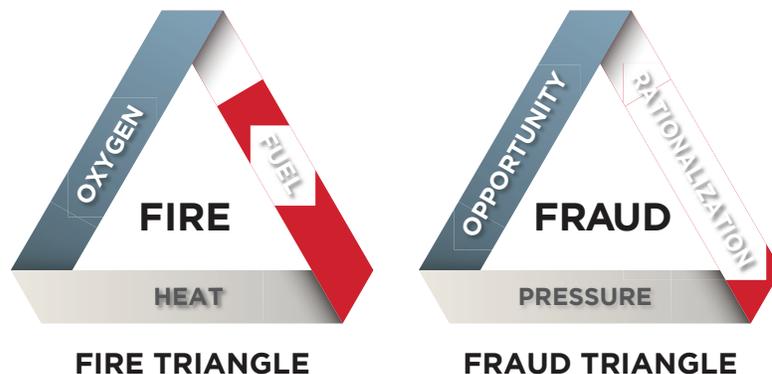


# FIRE & FRAUD TRIANGLES

Fraud is a significant risk to insurance companies. Most executives and employees understand the risk of fraud but struggle to find the resources to fight it. They constantly weigh the cost to fight potentially fraudulent claims against the cost to pay them. This challenge allows an insured to take advantage of the insurance company and policyholders.

Understanding an insured's financial motive may be the answer.



Firefighters learn about the fire triangle which explains the elements necessary for a fire to burn. By removing one of these elements, the firefighter can extinguish the fire. The fraud triangle is very similar when it comes to fighting fraud.

## OXYGEN/OPPORTUNITY

With oxygen in the air, a fire can start just about anywhere because it only needs about 16% oxygen to burn. This parallels the opportunity for an insured to commit insurance fraud. The insured usually has untethered access to the asset(s) and the ability to hide information.

## FUEL/RATIONALIZATION

A fire requires a fuel source. Rationalization is similar because it is a component of almost every fraud. People can rationalize almost anything, especially when it comes to insurance fraud. Insurance companies appear to be easy targets and a faceless victim.

## HEAT/PRESSURE

Just as a heat provides a trigger to ignite fire, financial pressure is typically the trigger to commit insurance fraud. Ignition temperature for each type of fuel is known, consistent and easily measured. Financial pressure, on the other hand, varies by person and can be challenging to identify.

**TO FIGHT FRAUD** To fight fraud, you must remove one of the three elements of the fraud triangle. By implementing effective controls, organizations can easily remove the opportunity. However, implementing controls alone will not prevent claimants from attempting to commit fraud. Insurance companies must focus their efforts on monitoring controls to detect potential fraud.

**IN THE EVENT YOU SUSPECT FRAUD**, we help you find answers to the appropriate questions and deal with the threat efficiently. The HORNE team of fraud examiners includes Certified Fraud Examiners (CFE), Certified Public Accountants (CPA), Certified Internal Auditors (CIA), and analysts. We perform fraud examinations through an extensive review of documents, financial analysis, interviews and third-party investigations. We help you find answers to the appropriate questions to handle potentially fraudulent claims.

Fraud Triangle - Donald R. Cressey, *Other People's Money* (Montclair: Patterson Smith, 1973) p. 30.