

Chapter 10

Insurance Fraud and Financial Performance: The Case of Tanzania

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ABSTRACT

Insurance fraud has been identified as a significant risk that undermines investor and customer trust. This chapter examines the effect of insurance fraud on the financial performance of the insurance industry of Tanzania. A standardized questionnaire was used to conduct a survey of 119 insurance companies and brokers. The data were analyzed using the multiple regression technique. The findings reveal that policyholder fraud, internal fraud, and intermediary fraud have a negative effect on the financial performance of insurance companies and brokers. Fraudulent documents, customers demanding significant compensation relative to the actual damage, a fake accident, weak internal control, employee dishonesty, poor staff compensation, ineffective supervision, and the inability to detect fraud were the causes of insurance fraud. In order to reduce insurance frauds, it is suggested to (1) thoroughly evaluate claims, (2) establish a transparent anti-fraud bureau, (3) use information technology for effective internal audit, and (4) implement a comprehensive internal fraud policy.

INTRODUCTION

The insurance industry plays a vital role in economic growth by facilitating trade and commerce, capital formation, financial security, and funding development initiatives (Kiptoo *et al.*, 2021). Even though it serves a crucial function, the insurance industry has been performing poorly on a global scale (Zhu *et*

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al., 2021). Over the past decades, financial fraud has brought shocking losses to the global economy, threatening the efficiency and stability of capital markets (Li *et al.*, 2021; Rafay, 2021a). For instance, in the United States of America, underwriting losses, declining premiums, and a general reduction in net income have been reported by insurers (IRA, 2021). The IRA (2020) revealed that the low interest rate environment had a severe impact on the insurance sector in Europe, resulting in poor investment returns. The continent of Africa has experienced underwriting losses and return volatility in every nation (Re, 2016). Insurance penetration is also low, with an average of 3% compared to a global average of 6%. Furthermore, over time, the premium of life insurance in Africa has remained unchanged (Re, 2016).

Globally, the performance of insurance firms has been negatively influenced by the onset of pandemics like the most recent COVID-19 (Farooq *et al.*, 2021). The sector is facing more difficulties as a result of COVID-19, such as operational restrictions, financial distress, and regulatory obstacles (Baumann, 2020). The performance of insurance companies has been negatively impacted by COVID-19, which has adversely impacted investment returns in many nations, particularly in developing countries (Farooq *et al.*, 2021). In China, the impact of COVID-19 has led to a decrease in insurance premium income, lowered the growth rate of premiums, and decreased insurance depth and insurance density (Wang *et al.*, 2020). In Tanzania, COVID-19 has adversely impacted insurance firms through decreased returns from funds invested in capital markets, a decrease in premiums, and an increase in claims in some insurance classes like medical (IRA, 2021).

Fraud in the insurance industry has been identified as a significant risk that undermines investor and customer trust, harms the reputation of individual insurers and the industry as a whole, and has a detrimental influence on economic growth (ACFE, 2022). Since it depletes the funds required to cover legitimate claims, insurance fraud makes business conditions even more challenging. Insurance fraud is a significant levy on every policyholder at a time of economic pressure, inflation, and other pressures (Insurance Outlook Report, 2022).

Insurance fraud has grown in complexity and frequency over time, and it is now the second most common financial crime after tax evasion (Bastürk, 2020). Insurance fraud and the fight against it have been high on the global insurance service industry's agenda (Patil & Godbole, 2018). Due to a rise in fraud claims and auto theft, the Special Investigative Unit was created in the USA in 1980 (Ghezzi, 1983). Conceptual studies were conducted in Canada, particularly following the advent of scams in the sector of health insurance (Dionne, 1984). In the late 1980s, fraud in England became a concern that was taken into consideration in the travel, automobile, housing, and business sectors (Clarke, 1989). In Tanzania, the Tanzania Insurance Regulatory Authority (TIRA) is collaborating with other parties to prevent fraud and other misconduct in the insurance industry (TIRA, 2022).

The number of empirical studies on insurance fraud in the insurance service business around the world has been increasing in recent years (Amiram *et al.*, 2018; Daudi & Shandika, 2021; Gomes *et al.*, 2021; Goswami *et al.*, 2022; Jung & Kim, 2021; Karpoff, 2020; Kiptoo *et al.*, 2021). This is the outcome of massive losses attributed to insurance fraud on the global insurance markets, which are in the billions of dollars, hurting insurance firms' growth and the financial well-being of both insured and uninsured people (Bastürk, 2020; Loveday & Jung, 2021). Insurance fraud is a continuing danger, according to the Insurance Outlook Report (2020). Similarly, Button *et al.* (2017) state that insurance fraud is a significant economic issue for the insurance industry as well as national economies.

In Tanzania, fraudulent claims have been growing within the insurance service industry, posing a hazard to all members of society (Daudi & Shandika, 2021). These researchers point out that the Tanzanian insurance industry has remained small in terms of insurance service providers and customers

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