

Insurance Coverage Law Center

This article is reprinted with permission.

Page printed from: <https://www.law.com/insurance-coverage-law-center/2023/08/18/using-ai-to-detect-insurance-fraud/>

Using AI to Detect Insurance Fraud

"With AI being used to detect fraud, it is essential to place a premium on transparency and data protection to avoid legal issues," says Kayla McCallum of Swift Currie.

By **Kayla McCallum** | August 18, 2023



Kayla McCallum, associate attorney in Swift, Currie, McGhee & Hiers Atlanta office.
Courtesy photo

AI, or artificial intelligence, has been making waves in the news lately with claims of passing major exams like the Law School Admission Test (LSAT) and the Medical College Admission Test (MCAT). But did you know the insurance industry was one of the first to jump on the AI bandwagon? This article will explore how insurers currently employ AI to uncover fraudulent claims, the benefits of utilizing this technology, the potential risks and best practices when using AI.

How It Works

AI is being used in many different ways by insurers to detect insurance fraud. One of the most common ways is through machine learning algorithms. Machine learning algorithms learn from inputted data to recognize patterns and anomalies that could indicate fraudulent behavior. These algorithms can examine significant amounts of data, such as insurance claims, customer behavior and other data points to identify suspicious patterns faster than humans.

For example, AI can recognize suspicious claims by analyzing and comparing data from sources including social media, medical records, public records and previous insurance claims. AI uses this information to identify possible patterns that may indicate a fraudulent claim, such as claims that consistently involve the same medical provider or multiple claims from a group of individuals for the same amount. Additionally, AI

can analyze customer behavior to detect any changes in behavior that may indicate potentially fraudulent activity. For instance, if a customer who has never filed a claim suddenly files multiple claims within a short period of time, AI can flag these claims for further review.

Another way AI is being used to detect insurance fraud is through predictive modeling. Predictive modeling uses historical data to identify patterns and try to predict future events. Insurers can use predictive modeling to identify high-risk customers who are more likely to commit fraud. This allows insurers to focus on preventing fraud from these customers rather than just detecting fraud.

For instance, if an AI system uses predictive modeling and identifies a possible connection between individuals, it could be used to identify potential fraud rings. Fraud rings are groups of people who work together to commit insurance fraud. These groups have been notoriously difficult to identify as they purposely are not linked in traditional manners such as on social media. AI can analyze and cross-reference data from multiple sources, including previous insurance claims, to identify connections between individuals that may indicate a fraud ring.

Best Practices and Transparency

One of the significant benefits of using AI to detect insurance fraud is that it can help insurers to detect fraud quickly. This is important because the longer fraud goes undetected, the bigger it grows and the more it costs insurers. Additionally, quickly detecting fraud can help prevent fraudulent claims from being paid, which can save legal counsel the time of litigating a fraudulent claim.

Conversely, the implementation of AI in insurance fraud detection also raises concerns about its legal implications. As insurers increasingly rely on AI-powered systems to identify and prevent fraudulent claims, questions arise around transparency, privacy and bias.

One of the primary concerns is transparency in AI decision-making. The algorithms used in AI systems can be complex and hard to understand and explain, making it challenging to determine how decisions are made and even more difficult to defend the decision in court. Insurers must ensure that their AI systems are transparent and that the decision-making process is clear and understandable to prevent potential legal consequences.

Imagine an individual challenging an insurer's decision to deny a claim in court, and that decision was based on the findings of an AI system. To defend its decision, the insurer must demonstrate how the AI system arrived at its decision and why it was fair. Without transparency, insurers could be held liable for the decisions made by their AI systems, potentially resulting in costly legal fees.

Privacy is another crucial concern associated with the use of AI in fraud detection. Insurers collect and analyze enormous amounts of sensitive personal data to identify fraudulent activity, raising questions about privacy and data protection. Insurers must use best practices and comply with data privacy laws and have proper data protection protocols in place to prevent data breaches and misuse of personal data. Additionally, insurers must confirm that they only collect the data necessary to identify potential fraudsters, and the data is used solely for legitimate purposes.

Last, potential biases in AI algorithms can lead to unintentional discriminatory practices, creating legal and ethical consequences. Insurers must guarantee that their AI systems are not biased against groups of individuals and that decisions are made solely based on legitimate criteria.

Integrity and Data Protection

With the potential for legal and ethical implications surrounding the use of AI, insurers must place high importance on the integrity of their operations. To help insurers address these concerns, it is essential to establish best practices to provide transparency, minimize bias and protect data privacy.

Insurers should develop a clear, understandable and explainable decision-making process to address transparency within the AI system. This includes identifying the data sources used by the AI system and establishing that they are accurate, complete and up-to-date. The algorithms used in the AI system should be explainable so insurers can understand how the system arrived at its decision. In addition, insurers should document the decisions made by an AI system so that representatives can testify in court regarding the decision, should that be necessary.

In addition to transparency, AI systems should be regularly monitored and audited to identify and address potential biases. AI algorithms are only as good as the data they are trained on, and biased data can lead to biased decision-making. Regular audits of the AI system can help identify and correct any potential biases.

Insurers also must prioritize data protection and that the data they collect is used only for its intended purpose. As the use of AI in fraud detection requires the collection and analysis of sensitive personal data, insurers need to take appropriate measures to protect the privacy of their policyholders. This includes compliance with relevant data protection laws and regulations and implementing appropriate security measures to prevent unauthorized access or disclosure of personal data.

Conclusion

As AI becomes more commonplace in our daily lives, the insurance industry is no exception. With AI being used to detect fraud, it is essential to place a premium on transparency and data protection to avoid legal issues. With these crucial practices and procedures in place, insurers can employ the power of AI while limiting concern about legal implications.

These views are the author's own.

Kayla McCallum (<https://www.swiftcurrie.com/attorneys-kayla-mccallum>) is an associate attorney in Swift, Currie, McGhee & Hiers' Atlanta office. She focuses her practice on first-party property insurance, insurance coverage, automobile litigation, and premises liability.