



# ANTI-FRAUD PLAN



Republic of the Philippines  
Department of Finance  
**INSURANCE COMMISSION**  
1071 United Nations Avenue  
Manila



14 September 2017

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Subject: **Your ANTI-FRAUD PLAN Submission**

Dear Mr. Dalit:

This is to acknowledge receipt of your letter dated 31 August 2017 relative to the submission of the Anti-Fraud Plan in compliance with Circular Letter No. 2016-50 dated 6 September 2016.

Thank you and Good Day!

Truly yours,

For The Insurance Commissioner:

**MA. LOURDES L. RAMOS**  
Acting Division Manager  
Public Assistance & Mediation Division

Pamd/



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## SEDP MBA ANTI-FRAUD PLAN

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## **1. Introduction**

Simbag sa Emerhensya asin Dagdag Paseguro Mutual Benefit Association Inc. (SEDP MBA) is a duly licensed provider of microinsurance coverage for various risks involving life, accident, sickness and other contingencies. SEDP MBA was established in 2009 registered with the Securities and Exchange Commission last February 17, 2009 and awarded Certificate to operate as Mi-MBA by the Insurance Commission last August 27, 2009.

## **2. What is Fraud?**

In general, fraud is defined as the intentional distortion of truth in order to induce another party to part with something of value or to surrender a legal right (Merriam-Webster Dictionary).

Fraud, as defined by the International Association of Insurance Supervisors, is a deceptive act or omission intended to gain advantage for a party committing the fraud (the fraudster) or for other parties.

## **3. Statement of Anti-Fraud Policy**

SEDP MBA does not tolerate fraud, whether carried out by the members or by non-members, Trustees, Management & Staff of SEDP MBA or by the microfinance and organized groups partners, consultants or suppliers. As appropriate, SEDP MBA will investigate through its designated Special Investigation Unit (SIU) any suspected or actual fraud including but not limited to insurance claims, benefits, premiums, contributions, or misappropriation of assets. If there is probable cause, the SEDP MBA will take action based on the gravity of the offense or even take legal action including reporting the fraud to proper authorities in order to get conviction, recover assets or obtain compensation for loss.

## **4. Purpose of this Anti-Fraud Plan**

This Anti-Fraud Plan aims to do the following:

- a. Define the procedures involved in preventing, detecting, reporting, and investigating suspected or actual cases of fraud involving



- members, intermediaries and internal staff, in the areas of membership enrollment, collection of contributions, claims, and handling of assets.
- b. Confirm the Management's *overall responsibility* for the Association's anti-fraud efforts.
  - c. Identify the Anti-Fraud Coordinator *directly responsible* for, and the procedures involved in, the following anti-fraud efforts:
    - i. Development, implementation, review, and maintenance of the Anti-Fraud Plan;
    - ii. Functioning of the Special Investigation Unit (SIU).
  - d. Identify the member of the Board of Trustees tasked with *oversight responsibility* over the Anti-Fraud Plan.
  - e. Confirm the Association's commitment to develop a program to provide continuing anti-fraud education and training for members and staff.

## **5. Oversight and Operational Responsibilities over the Anti-Fraud Plan**

- a. As a matter of policy, all officers and staff of SEDP MBA and SEDP-Simbag sa Pag-Asenso Inc. are responsible for preventing and detecting insurance fraud in their respective areas of operation.
- b. The Board of Trustees, acting through the Audit Committee Chair, has oversight responsibility over SEDP MBA anti-fraud efforts.
- c. The Management has the overall responsibility for the development, implementation and regular review of the Anti-Fraud Plan.
- d. The Compliance Officer is designated by the Board of Trustees as the Anti-Fraud Officer responsible for the continued maintenance of the Anti-Fraud Plan. He/she is also designated as the Head of the Special Investigation Unit (SIU), in charge of coordinating any investigation of actual or suspected fraud, with assistance provided by Internal Audit. He/she is also in charge of contacting proper authorities whenever appropriate.

## **6. Categories of Fraud**

- a. Member/Policyholder Fraud and/or Claims Fraud  
This involves fraud in the application by, and enrolment of, members and dependents, and in the purchase and/or execution of an insurance product, including claims and benefits.
- b. Intermediary Fraud  
This includes fraud committed by SEDP MBA microfinance partners, organized group partners, collection agents, insurance/MBA coordinators and other intermediaries.

c. Internal Fraud

This group of fraud includes misappropriation of cash/assets by any of SEDP MBA trustees, managers or staff. This also includes fraud at governance level, e.g., creation of a loan facility for the Trustees/Management that have terms and conditions highly disadvantageous to the members or to the Association.

## 7. Prevention and Detection of Fraud

### Membership Enrollment

- a. The business model of microinsurance MBAs involves partnership with microfinance institutions and organized groups which are the source of members for SEDP MBA and which provide various services such as collection of MBA contributions, facilitating the reporting and validation of claims and disbursement of insurance benefits. Thus, for administrative and cost reasons, SEDP MBA principally relies on the microfinance partner and organized group partner to do the verification of member's personal circumstances such as identity, age, source of income, home/business address and name(s) and age(s) of legal spouse/dependents.
- b. As co-owners of SEDP MBA, all members recognize that they play an important role in fraud prevention. Before an applicant is allowed to join an organized group or center, existing members of the group or center examine the applicant's background and determine if he/she will be an asset or a liability to the group.
- c. Apart from the assessment made by existing members, SEDP MBA also requires prospective members to fill up a membership application form in fulfillment of the know-your-customer (KYC) requirement. This is done through the microfinance partner and organized group as part of the support services provided to SEDP MBA.
- d. The Community Development Worker (CDW) or Coordinators, having been trained to watch out for fraudulent applications, will examine the application form by checking the completeness of answers and the consistency of application information (such as name, date of birth, etc.) with information stated in civil documents (e.g., birth certificate, marriage contract), or alternative / substitute documents (e.g., Indigenous Persons Certification) or, if available, government-issued identification documents (e.g., Driver's license).
- e. The CDW and Coordinators have been given examples of fraudulent acts that they should watch out for. The examples listed below are not intended to be exhaustive but are rather meant to be instructive and serve as a guide for the detection of member and intermediary related fraudulent activity.



	<b>Membership</b>
<b>Member</b>	<ul style="list-style-type: none"> <li>• Falsification of application documents of applicant, dependent or beneficiaries</li> <li>• Falsification of applicant's age in order to qualify for membership and insurance coverage</li> <li>• Inclusion of over-age or otherwise ineligible dependents</li> <li>• Misrepresentation of relationship (by blood or by law) to overcome the lack of insurable interest</li> </ul>
<b>Intermediary</b>	<ul style="list-style-type: none"> <li>• Intentional acceptance of false member information</li> <li>• Manipulation of enrolment date to avail of continuous benefit</li> <li>• Adjustment of dates to make a member qualified</li> <li>• Padding of number of membership enrolment to qualify for cash incentives</li> <li>• Distribution of member quota to share incentives</li> <li>• Consolidation of member quota to share incentives</li> <li>• Submission by MFI of fictitious data on non-existent members and/or spouse and dependents which data will eventually be used to claim insurance benefits;</li> <li>• Submission by MFI of request for credit life insurance covering a fictitious loan.</li> </ul>
<b>Internal</b>	<ul style="list-style-type: none"> <li>• Intentional acceptance of fabricated documents</li> <li>• Collusion with the intermediary for groups to qualify for incentives</li> </ul>

- f. As additional preventive measure, and in view of Insurance Commission Circular Letter No. 2016-50, the Association will request/has requested approval from the Insurance Commission to include in staff orientation and communicate with partner organization:

**"Section 251 of the Insurance Code, as amended, imposes a fine not exceeding twice the amount claimed and/or imprisonment of two (2) years, or both, at the discretion of the court, to any person who presents or causes to be presented any fraudulent claim for the payment of a loss under a contract of insurance, and who fraudulently prepares, makes or subscribes any writing with intent to present or use the same, or to allow it to be presented in support of any claim."**

#### Collections

- a. MBA Finance is in charge of receiving collections of MBA contributions remitted by the MFI partner and the issuance thereof. Collection reports sent by the MFI partner are regularly reconciled against bank deposits

made by the MFI partner to determine if there was any misappropriation of collections.

- b. MFI Finance is in charge of posting members' payments to the members' corresponding subsidiary ledgers. Control totals of subsidiary ledgers are generated, both before and after making the ledger postings. The change in control totals should correspond to the total payments made. Similarly, withdrawals from members' ledgers due to death, resignation or retirement are reconciled. This ensures that all movements in ledger balances are fully accounted for, with audit trails as reference.
- c. MBA Finance regularly reconciles the members' subsidiary ledgers against the general ledger. Member subsidiary ledgers include: basic life premiums, equity values, credit life premiums, retirement fund contributions, etc.
- d. MBA Finance coordinates the regular reporting to the Management/Board of Trustees by the membership enrolment, MIS, and claims departments on new members gained or lost, status of membership, claims submitted/in-process/denied/paid, etc.

	<b>Collection</b>
<b>Member</b>	<ul style="list-style-type: none"> <li>• Insists of payments not made</li> <li>• Intentionally unrecorded collection from other group members</li> <li>• Purposeful non remittance of collection to branch ("hold-up me")</li> </ul>
<b>Intermediary</b>	<ul style="list-style-type: none"> <li>• Deliberate <i>non-remittance or partial remittance</i> of collection to MBA</li> <li>• Deliberate non-issuance of provisional receipt or non recording to passbook, collection sheet or center logbook of the contributions paid</li> <li>• Misappropriation of funds (e.g. contribution intended for payment of MBA contribution applied to savings or repayment of loan to MFI or organized group, advanced MBA contribution of a member used to pay other member's unpaid contribution)</li> <li>• Tampering of original payment made in the original receipt</li> <li>• Imitating bank deposit formats and layout to prove that payments are made</li> <li>• Intentional double recording of collections</li> </ul>
<b>Internal</b>	<ul style="list-style-type: none"> <li>• Manipulation of collection posting</li> </ul>



MIS

- a. Management Information System (MIS) is a series of processes and actions which capture raw data and then process the data into useable information, so that this information can be disseminated in the form of reports needed by the end users. The MIS should be able to maintain the database of members and dependents, products, payment or transactions and claims at the minimum.
- b. The purpose of the MIS is to provide data needed as basis of the management and the Board of Trustees decision. Support for effective and efficient management as well as facilitate good governance on the part of the Board of Trustees.
- c. MIS is in charge of safekeeping members records. MIS in-charge is not allowed to do postings, withdrawals or any changes to member records in order to ensure segregation of duties and responsibilities between Finance (account updates) and MIS (safekeeping).
- d. There are audit trails on any changes in the members' database and a defined hierarchy of positions who are authorized to make changes or to view records.

	<b>MIS</b>
<b>Intermediary</b>	<ul style="list-style-type: none"><li>• Deliberately encoded false entry of member details, payments, and claims</li><li>• Forced balancing on records/remittances</li></ul>
<b>Internal</b>	<ul style="list-style-type: none"><li>• Manipulation of client's account/records which may include equity value, retirement savings fund, contributions and premiums (e.g. encoding of payments which is not made)</li><li>• Creation of fictitious clients' records</li><li>• Unauthorized deletion and addition of information</li><li>• Connivance of management and claimants</li></ul>

Claims

- a. Once an insurance claim is filed by a beneficiary, the Center Officer, Community Development Worker or the Coordinator will conduct on-site validation. Claims Processor relies on the submitted validation report and other necessary documents such as the following (as applicable):
  - Death certificate;
  - Birth or baptismal certificate;
  - Marriage contract;
  - Police report;
  - Hospital records;

- b. Claims Processor also validates insurable interest issues. If there is no insurable interest, MBA Manager denies the claim and notifies the Branch concern through the Claims Processor.
- c. The Claims Processor will also coordinate with the Branch in order to confirm if the coverage is in force, within the grace period or lapsed.
- d. The one-year contestability period provides some measure of protection from uninsurable applicants especially if death occurs within a relatively short period after acceptance of membership. If death is due to a pre-existing health condition, SEDP MBA pays a lower amount of benefit according to a pre-defined benefit schedule.
- e. If the Claims Processor suspects fraud was committed (especially in case of death due to accident), a *cost-effective investigation* is initiated to gather evidence including police report, hospital/medical record including interview of witnesses.
- f. If the initial investigation points to a need for a deeper investigation by the Special Investigation Unit, the Claims Processor will report it to the Anti-Fraud Coordinator who will, together with Internal Audit, (as the head and member, respectively, of the Special Investigation Unit) conduct a full investigation. The investigation will include the cause of death, place of death, financial and medical circumstances of the insured, and his/her relationship to the beneficiary.
- g. If the insurance coverage or policy is already incontestable, the Claims Processor verifies only the needed information (in-force or within the grace period) before approving payment of the claim.
- h. In case of a claim filed by a microfinance partner or organized group partner for Credit Life benefits, the Claims Processor requires the submission of a statement of account showing the amount of original loan, repayments made and outstanding (unpaid) principal balance. SEDP MBA settles the outstanding principal balance and pays the remaining amount (if any) to the borrower's beneficiary.
- i. To aid the Claims Processor in validating the claim, following are some examples of "red flags" that may trigger further investigation (these "red flags" are also included in the claims procedure manual).
  - Death happened outside of the country;
  - Cause of death is "undetermined";
  - Dates on submitted documents are conflicting;
  - Death certificate looks irregular;
  - MBA is notified of the death claim only after burial.

j. Examples of fraudulent acts:

- Submission of fake death claim documents by beneficiary;
- Submission of fake resignation / retirement documents;
- Submission by a non-member / outsider of fake membership documents.

k. To raise anti-fraud awareness and to help deter claims fraud, SEDP MBA has released appropriate Advisories addressed to members, intermediaries and internal staff, respectively, regarding the anti-fraud warning stated under the aforementioned Circular Letter No. 2016-50. The anti-fraud warning will, henceforth, also be included in all claims notices/forms.

	<b>CLAIMS</b>
<b>Member</b>	<ul style="list-style-type: none"> <li>• Submission of fake death/disability/hospitalization claims' documents (e.g. fake police report, death certificate, medical certificate, incident report, and blotter report from the barangay)</li> <li>• Tampering of death/disability/hospitalization documents</li> <li>• Manipulated cause of death (whether or not natural death or accidental death)</li> </ul>
<b>Intermediary</b>	<ul style="list-style-type: none"> <li>• Payment of unqualified claims due to sympathy</li> <li>• Intentional tampering of documents to qualify as beneficiary</li> <li>• Account officer aid in the processing of fictitious claims to benefit from the claims proceeds</li> <li>• Account officer forge the signature of inactive member to withdraw members' equity value and retirement savings fund, if applicable</li> <li>• Payment of understated benefit to the beneficiary</li> </ul>
<b>Internal</b>	<ul style="list-style-type: none"> <li>• Process a fictitious claim in order to benefit from the claims proceed</li> <li>• MBA coordinator asks for "processing fee" to hasten the claims benefit acquisition</li> </ul>

Internal Audit

a. Internal Audit performs audit and operational reviews of the Association's functional areas based on the amount of risk exposure of the area and also based on available resources. These audits aim to identify weakness in internal controls, pinpoint responsibility for non-compliance to procedures and make recommendations for operations improvement. At the end of the review, Internal Audit holds an exit meeting with the Management to discuss findings and agree on corrective steps or improvements in processes and procedures. To



ensure independence with respect to its own audit function, Internal Audit directly reports to the Audit Committee of the Board.

- b. As Internal Audit is not involved in the line operation of SEDP MBA, Internal Audit is in a distinct position to do audit reviews covering all of the three (3) abovementioned categories of fraud. In particular, Internal Audit pays special attention to Membership Enrollment, MIS, Finance Management, Claims and other processes that likewise have significant risk exposures for SEDP MBA ( i.e. backlogs, overtime pay, under time, etc.,) as these areas normally have significant risk exposures to fraudulent activity. Among other audit steps, the auditor reviews transactions on audit sampling basis, reviews membership enrollments for completeness of required information, traces contributions, and reviews changes in members' records and claims payments if properly authorized.
- c. It is important for Internal Audit to distinguish between errors or omissions in MBA operations due to incompetence, lack of training, lack of supervision, etc., and those that are due to fraudulent activity. Such as claims payment on fictitious records, inclusion of non-existent members and erroneous posting of wrong contributions; on the other hand, the payment may have been made as a result of fraud/collusion among staff in charge of membership records and claims by creating fictitious records on non-existent members and proceeding to process fake insurance claims. In the former case, Internal Audit proceeds with its usual review, while in the latter, the auditor will discuss it with the Anti-Fraud Coordinator to determine if there is a need for a deeper investigation by the Special Investigation Unit.

#### Compliance Officer/Anti-Fraud Coordinator

- a. The Compliance Officer works with the individual departments to ensure compliance with rules and regulations issued by the Insurance Commission, and other regulatory bodies such as the Anti-Money Laundering Council, Securities & Exchange Commission, Bureau of Internal Revenue, etc. Compliance Unit also provides advice to management on conduct of insurance business and other compliance issues.
- b. While the Management has overall responsibility over SEDP MBA anti-fraud efforts, the Compliance Officer, as the Anti-Fraud Coordinator, has the direct responsibility for the development, implementation, review, and maintenance of the Anti-Fraud Plan and the functioning of the Special Investigation Unit (SIU).
- c. The Compliance Officer/Anti-Fraud Coordinator also heads the SIU, with assistance from the Head of Internal Audit. As SIU Head, he/she reports



to the Board of Trustees through the Audit Committee, in proper coordination with the MBA Manager.

Internal Control and Financial Management

- a. The MBA should practice sound financial management to include the following:
  1. Projected Financial Statement and Performance Objectives
  2. Investment Plan
  3. Monthly Financial Statements
  4. Annual External Audit
  5. Recording of Financial Transactions
  6. Annual Budget
  
- b. It is of utmost importance that SEDP MBA maintains at all times the trust of its members. Thus, the goal of SEDP MBA is to prevent and detect at the earliest possible time any theft of cash, investment collections, padding of expenses and other forms of misappropriation of assets. Any actual or suspected internal fraud committed by staff, management or trustees, calls for immediate investigation by the Anti-Fraud Coordinator and/or Internal Audit.
  
- c. These are the common fraudulent acts related to internal control and financial management:
  1. Window dressing/false reporting
  2. Receiving gifts, favors or benefits in cash or in kind from suppliers that may affect decisions
  3. Conflict of interest such as acquisition of assets, services that constitute conflict of interest for decision makers
  4. Theft and misappropriation of funds and other assets (e.g. cash advance use for other purposes)
  
- d. In order to prevent or detect fraud, the Association has implemented measures and internal controls such as proper segregation of duties, setting of levels of approval limits and designation of authorized signatories.
  
- e. Following are some of the internal controls implemented by SEDP MBA: (Finance Manual)
  - Staff cannot approve his/her own expenses.
  - Managers, depending on job function, are authorized to approve only those expenses within their area of responsibility.
  - Maximum amount of expense allowed to be paid from the petty cash fund is Php 2,000.
  - All requests for payment either through the petty cash fund or in check must be properly supported by invoice, receipts, statement of account, etc.

- Expenses for trainings, travel, accommodation, representation must be reviewed in conformity with SEDP MBA guidelines before payment.
  - Transactions with Check amounting up to Php 50,000 should be signed by Manager.
  - Transactions with Check amounting in excess of Php 50,000 should be signed by President.
  - Bank reconciliations are regularly prepared to detect any forged/fraudulent checks paid, collections not deposited, unauthorized debits to bank account, etc.
  - Cash advance limits and liquidation period.
  - Purchasing policy
  - Budgeting and approval process
  - Periodic review and analysis of financial reports
  - Policy manuals are made available to all employees
  - Development of code of conduct
- f. If any employee notices a fraudulent activity, he/she must first report it to the his/her immediate supervisor or the next higher authority, who will then report it to the Anti-Fraud Coordinator who shall take the necessary action in accordance with his/her role as head of the SIU.

#### Education and Training

- g. Applicants for membership in SEDP MBA are required to attend the Compulsory Members Training (CMT). Among the topics included in the seminar are anti-fraud policies and procedures, duties and responsibilities, anti-fraud awareness, claims fraud prevention and the negative effects of fraud on the institution's solvency. Through this seminar, the Association widens its anti-fraud prevention network by involving members in screening applicants and providing community-based claims validation. More so, regular updating of anti-fraud policies should be included in the re-orientations.
- h. In order to keep the Membership Enrollment, Claims, Internal Audit and Compliance staff up-to-date on insurance claims handling and fraud investigation, SEDP MBA requires the aforesaid staff to attend regular training, conferences / seminars on the subject. Training also covers fraud "red flags" as well as high profile current events and topics related to insurance fraud.
- i. SEDP MBA requires all new/existing staff including managers to read and follow this Anti-Fraud Plan. Management emphasizes the importance of strictly following the policies, procedures and internal controls laid out in the Plan in order to discourage fraud and to increase the staff's awareness of suspicious acts.

- j. From time to time and as necessary, SEDP MBA shall revise procedure manuals and internal controls in order to incorporate improvements to policies and procedures.
- k. To further strengthen awareness of policies, applicable information, education and communication materials should contain anti-fraud provisions/briefer.
- l. SEDP MBA in coordination with the intermediary should conduct fraud awareness orientation to all its staff and concerned stakeholder. Further, anti-fraud advisories or memos should be made available/visible in the respective offices. Regular skills training on fraud identification handling and reporting should also be conducted to update and refresh knowledge of the staff.
- m. This Anti-Fraud Plan, including the reporting policies contained herein, shall be maintained in the office of the Compliance Officer/Anti-Fraud Coordinator and shall be open for inspection by the Insurance Commission. The Association shall also maintain appropriate records to determine the effectiveness of this Anti-Fraud Plan.

#### **8. Reporting Fraudulent Activity / Suspected Fraud**

- a. In case any member/staff observed or suspects a fraudulent activity involving any co-member, management or staff, it shall be reported immediately to his/her immediate superior through personal appearance and to be documented using the incident report form or through email or SMS.
- b. In case any member/staff observed or suspects a fraudulent activity is happening, he/she must report it to his/her immediate superior, or directly to the Compliance Officer/Anti-Fraud Coordinator in case his/her immediate superior is involved, using Incident Report Form. In turn, any employee/staff who receives such report must immediately notify and forward the Incident Report Form to Compliance Officer/Anti-Fraud Coordinator.
- c. The Compliance Officer/Anti-Fraud Coordinator will make a preliminary evaluation as to whether the matter appears to be fraudulent. If fraud is detected, he/she will initiate a full internal investigation. (*Refer to the section on Special Investigation Unit*) and notify the following, as applicable: MBA President, Manager, Internal Audit or Audit Committee. The report should be treated with utmost confidentiality.



## **9. Special Investigation Unit (SIU)**

- a. The SIU is headed by the Compliance Officer/Anti-Fraud Coordinator who will report directly to the Board of Trustees through the Audit Committee. He/she is assisted by the Internal Audit in the functioning of the SIU and in undertaking fraud investigations.
- b. The SIU shall determine if an internal investigation is sufficient or if an external resource is needed to conduct the investigation. Each reported case of fraud or suspected fraud will be handled in a way suitable to its size and nature.
- c. The SIU expects full cooperation from specific staff of units who have responsibility over the matter being investigated. The investigative team will interview, as necessary, those individuals with knowledge or information related to the suspected fraud and will review pertinent documents. Each staff or member of management is required to cooperate fully with the investigation process and shall not in any way hinder the investigation. Pertinent records will be made easily available to the SIU. The investigative team should observe procedural fairness and due process.
- d. As earlier stated, all claims submitted within the Basic Life's contestable period are initially investigated by the Claims Processor. If fraud is suspected, the investigation is placed under the guidance of the Anti-Fraud Coordinator. The investigating team will call upon the departments and specific individuals whose responsibilities are important to the investigation and may also request help from an outside investigator, if necessary, for external investigations.

## **10. Results of Investigation Reporting and Monitoring**

- a. The SIU will issue an initial briefing report to be distributed to the following: MBA Manager and the Audit Committee of the Board of Trustees. This report will provide a summary of the issue, an outline of procedures for the investigation, liaison with or notification to the proper authorities, other areas of the business for which the fraud might be relevant, the reporting timetable of the investigation and any other relevant information.
- b. Upon completion of the investigation, the SIU will issue a final report to the Manager, President and Audit Committee which will further report to the Board covering all aspects of the case. This will serve as formal record of the case including action taken. Contents of this report will include the following:
  - Facts and circumstances of the fraud and its discovery;
  - Procedures and findings;
  - Damage inflicted whether financial or non-financial in nature;



- Person of interest involved in the fraudulent activity;
  - Recommended sanctions (based on HR Manual) for erring staff or member of management;
  - Recommended corrective action to improve procedures;
  - Recommendation, if any, to pursue legal action.
- c. The Anti-Fraud Coordinator given a specific timeframe shall ensure that the recommended sanctions, corrective actions, and the pursuit of legal action once deemed necessary, is enforced.

## **11. Referral for Legal Action**

- a. The Board of Trustees will make the final decision regarding the cost-effectiveness and practicality of pursuing legal action against prosecuting the ones who committed the fraud.
- The decision to institute legal action / prosecute depends not only on the amount of loss/fraud involved but also in instances wherein the Association's interest will benefit from showing the case as an example of the Association's non-tolerance of fraud, especially if staff or management are involved.
  - If the case involves members, the decision shall take into account possible negative effects against the Association's reputation including loss of members' trust.
  - If the case involves the microfinance partner, the decision shall take into consideration all factors involved including ramifications of any action.
- b. If the decision is to pursue legal action, the Anti-Fraud Coordinator will coordinate to the proper authorities, and the Insurance Commission, if deemed necessary. The Association shall fully cooperate with law enforcement authorities in any criminal investigation.

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## **Annex – Examples of Fraudulent Activity**

### Intermediary Fraud

- Microfinance/Organized group partners creates a fictitious loan to a member, insures with the Association the credit exposure, pays for the insurance premiums and collects insurance benefits.
- Microfinance/Organized group field staff files fictitious claims.
- Microfinance/Organized group partner inflates its membership roster and subsequently claims insurance benefits in behalf of non-existent members.
- Microfinance/Organized group partners' staff/employee creates a fictitious Center or Group and subsequently claims insurance benefits.
- Kiting or lapping of collections by microfinance/organized group partner.
- Connivance by MBA/MFI/Organized group staff/employee with other parties (e.g., the member, Community Development Worker, Coordinators etc.) in filing fraudulent claims.

### Internal Fraud

- Internal staff creates fictitious membership records, pays for the regular contributions, and after some time claims the insurance benefits.
- Internal staff processes fictitious claims and finds a way to claim the benefits.
- Internal staff manipulates membership/premium/contributions records to pay a claim for the benefit of a family, relative or friend.
- Board of Trustees/Directors/ Management misappropriate assets by ratifying and implementing policies for their own undue benefit.