



Impact

“One of the biggest problems with our old process was that it was difficult to see patterns. With the volume of data, no one auditor could see unusual behavior emerging. We needed a tool that didn’t require us to go fishing for the data. It needed to surface problems automatically.”

Program manager of a large multinational manufacturer

Challenges

- **Huge claims volume.** Processing too many claims manually introduces human error and high auditor turnover, making it unprofitable and resulting in many fraudulent claims being overlooked.
- **Inability to spot patterns.** Human auditors, though skilled, find it hard to recognize patterns of fraud and errors across claims – it just is not possible to retain all the variables over time.
- **Uncertainty over what to look for.** Even experienced auditors find it difficult to look for new fraud schemes as well as keep track of existing ones.
- **Business rule limitations.** While business rules are good at spotting known fraud patterns, they are easily learned and worked around, and they aren’t effective at uncovering new patterns of fraud.
- **Limited resources.** Auditors’ time is valuable; focusing them on the right claims and service providers is essential to maximizing their effectiveness.

How can we proactively manage claims to prevent millions of dollars in fraud losses?

YOUR GOAL: Stop fraudulent claims *before* money goes out the door

Globally, manufacturers spend more than \$70 billion to cover warranty claims each year.¹ That’s more than 2 percent of revenue for most companies. Industry experts estimate that 10 percent to 15 percent of all warranty claims are fraudulent.² That represents more than \$7 billion in bad claims that are paid each year. And that’s not all. Indirect costs – e.g., tarnished brand reputation, replaced parts being sold on the black market, insurance costs and additional security needs – make the problem even more expensive.

Warranty claim costs alone are tough to bear, but fraudulent service/warranty claims can make matters worse. Third-party service providers, which are steadily becoming the norm for field service support, provide operational costs savings but dramatically increase the risk for claims fraud. Tough economic times have caused many service providers to seek new sources of revenue, and at times resort to fraud. Even those service providers once considered trustworthy are now trying to slip things through the system, and the ones that were already considered crooked are getting more sophisticated. True fraud is most likely to occur with third-party service organizations. However, even in a captive service organization, detecting questionable claims can significantly affect claim costs and customer satisfaction.

OUR APPROACH

In tough economic times, it is important to manage claims proactively to avoid fraud losses amounting to millions of dollars. Most vendors, however, only provide solutions based on business rule engines that are limited to uncovering past fraud trends. SAS approaches the problem by taking a hybrid approach that combines business rules with anomaly detection and predictive analytics to go beyond known pattern detection to uncover unknown and complex patterns. Our software and services can help you:

- **Reduce service costs** by using an automated process to review 100 percent of claims filed and assigning a score to claims and service providers that look suspicious.
- **Maximize auditor effectiveness** by enabling them to focus on those claims most likely to be fraudulent and conduct more comprehensive investigations.
- **Improve service network performance and customer satisfaction** by using advanced analytics to uncover patterns of service inefficiencies so that service providers can use those insights to provide better training to service technicians.
- **Analyze and optimize parts usage** with automated analytics that detect patterns in parts usage that can then be used to retrain technicians and optimize parts inventory.

The SAS® solution is available on demand via a secure, high-performance data processing infrastructure, with 99 percent or greater availability guaranteed in service level agreements, so you get a state-of-the-art outsourced application and subject-matter expertise – without requiring an up-front IT investment, staff and maintenance costs.

¹ Warranty Week, 2009.
² Arunum, 2009.



THE SAS® DIFFERENCE: A hybrid approach to fraudulent claims detection

SAS takes a hybrid approach to fraudulent claims detection that uses a combination of business rules, statistical tests and analytical models to process 100 percent of claims, enabling significant increases in suspect claim recovery. With SAS, you get:

- **Near-real-time analytics.** SAS Analytics provide the key to detecting issues and eliminating waste while not disrupting the adjudication process or slowing payments due for legitimate service. In addition, you can deny claims *before* they are paid, and stop money from going out the door.
- **Enhanced productivity.** Highly trained auditors are expensive personnel whose productivity is critical, so the last thing you want is them reviewing valid claims unnecessarily or researching like claims for comparisons. By focusing on the most suspicious service providers and claims, an auditor's time is used most effectively.
- **Short time to value.** Because the solution is provided on-demand, you get:
 - Superior business intelligence that drives gains in performance and revenue.
 - No up-front investment in developing and maintaining an in-house system or paying for the security provisions required to protect the solution.
 - No need to find, relocate, hire and train more quantitative specialists to perform analysis or skilled IT professionals to provide round-the-clock support.

Only SAS offers the superior business intelligence to fuel better business decisions in a low-risk solution that delivers business results rapidly, while distributing the investment predictably over time.

CASE STUDY: One of the world's largest multinational manufacturers of home appliances and industrial products was struggling with claims fraud.

Situation

The company needed a way to significantly reduce warranty costs by detecting and prioritizing fraudulent activity. It wanted a hosted solution that would interface seamlessly with existing processes.

Solution

SAS provided an on-demand solution that:

- Receives claims processed through a third-party transaction system that includes a business-rule engine every 15 minutes.
- Runs claims through a set of 36 hybrid fraud algorithms to look for suspicious claims and service providers.
- Scores, flags and makes claims available for pickup within a couple of minutes.

Results

- The dollar amount of fraud found per auditor has increased by 340 percent since the system was implemented.
- The company was able to catch more than \$5 million in claims fraud each year, and those savings have continued despite a reduction in audit staff.

What if you could ...

Reduce service costs

What if you could deny or charge back for illegitimate claims by applying business rules and advanced analytics against service claim data to automatically identify, classify and surface suspicious behavior?

Maximize auditor effectiveness

What if you could maximize the effectiveness of your auditors by freeing up their time so that they could focus their investigations on the most likely areas of fraud rather than performing simple audits?

Improve service and customer satisfaction

What if you could improve your service organization's performance and enhance customer satisfaction by identifying the causes of service inefficiency and proactively training your service staff to address them?

Analyze and optimize parts usage

What if you could lower your service costs by optimizing your parts usage?

You can. SAS gives you THE POWER TO KNOW®.

SAS FACTS

- SAS has been in business since 1976 and today has customers at more than 45,000 sites worldwide.
- SAS customers make up 92 of the top 100 companies on the 2009 FORTUNE Global 500®.
- SAS has been named a leader among nine vendors in *The Forrester Wave: Predictive Analytics and Data Mining Solutions, Q1 2010*.

Learn more about SAS software and services for manufacturing at www.sas.com/solutions/quality/suspect_claims.html



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