

# Executive Summary

Claims Committee Meeting, March 10, 2022  
**Board of Governors Meeting, March 23, 2022**

## Fraud Analytics Software

### Topic

This Action Item seeks Board approval to contract with FRISS, Inc. to provide a SaaS solution that will enhance the effectiveness of Citizens' fraud fighting efforts across the insurance enterprise by detecting a higher volume of potentially fraudulent cases and streamlining an approach that increases speed of detection and investigation into agency, underwriting, and claims fraud. Approval is requested for a five (5) year initial term with one three (3) year and one two (2) year optional renewal terms. The renewal terms may be combined, modified, or separated, but will not exceed five (5) years altogether. The estimated contract spend is based upon a five (5) year initial term of \$3.8 million, and \$2,295,000 for the one (1) three-year optional renewal term and \$1,530,000 for the one (1) two-year optional renewal term, totaling \$3,825,000 for the renewal terms. This estimated total spend (\$7,625,000) is considerate of the associated costs of license fees, implementation fees, data source maintenance and contemplates a 5% fixed annual inflationary rate for the renewal term pricing.

### History

Fraud committed by both individuals and organized crime groups is a serious issue affecting Citizens, especially as our policy count continues to grow. Over the past several years, criminal networks targeting property claims across Florida have become more prevalent and discreet in their efforts. In addition to its statutory obligation under F.S. 626.989 to detect and investigate fraud impacting policies and claims, Citizens has a fiscal responsibility to all policyholders and the citizens of Florida to help mitigate both fraud related policy premium increases and potential assessments by detecting and deterring fraudulent behavior. Due to these obligations, Citizens continually strives to improve fraud identification using proactive methods to prevent and deter property insurance fraud throughout the policy/claim lifecycle. The functionality sought for the anti-fraud technology offered by a s. 287.057, Florida Statutes procured vendor will enhance Citizens' ability to:

- detect patterns, trends, and connections of people/events that would otherwise go undetected;
- automate the identification of potentially fraudulent conduct occurring from point of sale through the claim process through analysis of near real-time internal and external data;
- provide a simplified approach to the visualization and reporting of complex data that expose relational networks between discreet parties; and,
- integrate with Citizens' Guidewire Insurance Suite (V9) from Guidewire Software, Inc. and have a high level of configurability with Microsoft data lake integration.

As a result, this solution is expected to enhance the effectiveness of Citizens' fraud fighting efforts across insurance operations by detecting a higher volume of potentially fraudulent cases and streamlining an approach that increases speed of detection while improving the quality of referrals to, and investigated by, the Special Investigations Unit (SIU). Through a competitively procured solution, Citizens will be better equipped to achieve their overall goal of protecting Citizens' policyholders and the citizens of Florida from insurance fraud related losses.

The current fraud detection methods used by Citizens are manually intensive and have limited functionality and capabilities, which hinder the ability to assemble and perform complex analyses and

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perform in a near or real-time environment. Moreover, the current state is not integrated into many of Citizens' automated policy and claim management systems. Research conducted by the Coalition Against Insurance Fraud (Coalition) in 2018 indicated 95 percent of insurers say that they were using some type of anti-fraud technology. Further, in an online survey, 75 percent of respondent insurers believe that among relevant technology, artificial intelligence (AI) would have the greatest impact on claims in general (beyond property and casualty, inclusive of auto, marine, workmen's compensation, etc.).

Specifically related to property and casualty insurance, anti-fraud technology continues to evolve rapidly. In the most recent 2021 study conducted by the Coalition, 41% of insurers responded that among the various lines of business, property claims are deemed as having the greatest impact by utilizing anti-fraud technology, which is up from 24% in 2018. Such technological advancements include the ability for insurers to leverage photo recognition/analysis in property claims. This emerging technology allows insurers to know whether a photo of claimed damage is authentic, has been digitally altered, or has previously been submitted on other claims. This technology can analyze the image and detect the slightest alteration or change that would escape detection of the human eye – all which can be automated and integrated into the policy and claim management systems.

There is also an emerging trend for insurers to invest in technology to detect underwriting fraud, which can include application fraud, rate evasion, and agent gaming. As such, insurers are seeking partnerships with vendors who provide technology that leverages existing systems that are integrated with external third-party data, such as photo imagery/analysis that identify misrepresentations when onboarding policies. Since underwriting fraud can occur at any stage in the policy life cycle, vendor solutions need to provide a scalable solution that incorporates real-time scoring to meet its needs.

In recognition of the role and growth of technology in detecting and combating insurance fraud throughout the policy and claim lifecycle, Citizens issued ITN 21-0005 for Fraud Analytics Software on April 27, 2021. This ITN was issued to obtain a SaaS solution, which would integrate the use of predictive analytics logic in a real time environment, driven by advanced data modeling techniques and statistical algorithms to identify and report potentially fraudulent activities quickly and accurately within the property and casualty insurance space.

On June 7, 2021, the deadline for replies to be due, seven (7) proposals were received from the following Vendors: Aviana Global Technologies, Inc., Cognizant Technology Solutions, DXC Technology, FRISS, Inc., Verisk/Insurance Services Office, Inc., SAS Institute, and VDart Inc.

After the Evaluation Team spent several weeks conducting a thorough evaluation of each reply, on July 13, 2021, a public meeting was held to rank the replies in order. The Evaluation Team determined the competitive range of vendors to move forward for Negotiations who were ranked highest with direct experience working with analytics in the property and casualty environment that addressed the entire insurance process (point of sale, underwriting, claims), sophisticated predictive modeling, integration with our claims management system, along with case management and reporting opportunities. Based upon the Evaluation Team's review and their indicated focus, it was announced during this meeting that Cognizant Technology Solutions, DXC Technology, FRISS, Inc., Verisk/Insurance Services Office, Inc., and SAS Institute would be advancing on to Negotiations.

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The Negotiation Team met with each of the above vendors who provided a thorough demonstration of their product's analytic capabilities, which included a review of systems integration, predictive models, use of AI, use of external data sets, and user interface. Subsequently, the Negotiation Team focused efforts on three vendors, SAS Institute, Cognizant Technology Solutions, and FRISS Inc., all of whom are widely viewed as industry-leading in anti-fraud technology. Further, these three each had direct experience working with analytics in a property and casualty environment with solutions that addressed the entire insurance process – point of sale, underwriting, claims – as well as sophisticated predictive modeling, integration with our claims management system with aspects of case management and reporting.

In addition, members of the Negotiation Team and Subject Matter Experts met with current customers as reference verifications for carriers using products provided by these three (3) vendors, to assess their individual experiences with them and the performance of their respective products.

After a thorough analysis of each of these vendors, including demonstrations and negotiations, on November 9, 2021, FRISS, Inc. was selected by the Negotiation Team as offering the best value to be awarded the Fraud Analytics Software contract.

It was the unanimous consensus of the Negotiation Team that the FRISS software solution represented the highest overall value to Citizens. FRISS was founded in 2006 and is 100% focused on automated fraud and risk detection for property and casualty insurance companies worldwide. They support insurance companies through all stages of a policy utilizing cloud-based products that can predict risk during underwriting and capable of detecting fraudulent claims at every point in the claim's lifecycle. Their solution is fully capable of providing Claims, Investigations and Personal Lines Underwriting modules for use by our SIU, as it included:

- experience with providing an end-to-end fraud prevention and detection software to the property and casualty industry;
- existing integration, and long-term partnership, with Guidewire, with vendor willing to make enhancements to ensure their solution aligns with the version we utilize;
- inclusion of public data sources; and
- robust self-learning modeling that speeds detection through their profiling and monitoring, methods of ingesting, mapping, and cleaning the data, as well as flexibility in tweaking the models.

In reviewing the three (3) firms from a cost perspective, FRISS does not initially appear as the least expensive, rather FRISS came in second. However, when the overall value to Citizens was compared to the other two competitors, the Negotiation Team determined that the FRISS software solution represented the best overall value for Citizens. This decision by the Negotiation Team is supported by the following facts, related specifically to FRISS, as this was the “best value” vendor offering:

- complete vendor-hosted solution without dependencies upon additional expenses and resources of Citizens' already-stretched thin IT resources to gather, clean, and import data;
- unlimited number of Citizens users authorized to access the software, in contrast to only allowing a fixed number of users with each additional user adding to the total cost; and

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- non-tiered pricing structure not subject to potential dramatic increases with Citizens' anticipated growth in Policies in Force, which could surpass 1 million by the end of 2022.

Should the FRISS solution be approved, Citizens anticipates a six (6) to nine (9) month phased approach in which costs are incurred based upon successful implementation within claims, investigations, and underwriting.

Projecting a cost-savings associated with anti-fraud technology continues to be elusive for insurers. There is little commonality on how insurers measure the success, although there is a rising trend among insurers to look at anti-fraud technology as a "return on investment." As of August 2021, FRISS metrics estimated that the automated fraud and risk detection product we are seeking approval to contract for has resulted in approximately \$1 billion in fraud savings for 2021. This is a conservative approximation made by assuming an average value of fraud cases and applying referral and impact rates across their customer base. Given the anticipated nine-month implementation schedule, Citizens should expect significant cost savings due to fraud based on the use this software by the fourth quarter of 2023, if not before. The FRISS solution has been implemented over 200 times at property and casualty carriers throughout the world.

## Recommendation

The recommendation is listed in the attached Action Item.

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## Fraud Analytics Software, ITN 21-0005

### Addendum/Supplemental Information

Based upon the discussion of this Action Item during the Claims Committee Meeting, we welcome the opportunity to provide additional clarification regarding the potential contract term details with the recommended FRISS solution, including technology and enhancement capabilities, and the estimated return on investment.

#### **Product Overview** -

The FRISS software offers Citizens a robust and powerful SaaS solution that is expected to enhance the effectiveness of Citizens' fraud fighting efforts across the insurance enterprise by detecting a higher volume of potentially fraudulent cases and streamlining an approach that increases speed of detection and investigation into agency, underwriting, and claims fraud.

Specifically, this software will:

- detect patterns, trends, and connections of suspicious people/events that would otherwise go undetected;
- automate the identification of potentially fraudulent conduct occurring from point of sale through the claim process through sophisticated analysis of near real-time internal and external data;
- provide a simplified approach to the visualization and reporting of complex data that expose relational networks between discreet parties; and,
- integrate with Citizens' Guidewire Insurance Suite (V9) from Guidewire Software, Inc. and have a high level of configurability with Microsoft data lake integration.

#### **Contract Term** -

The recommended base term of this agreement with FRISS, Inc. is for five (5) years. The estimated implementation time to integrate the FRISS tool with Citizens' existing software systems is between six (6) months to nine (9) months after project start. Following implementation, the impacted business units typically go through a period of iterative adjustments to business practices before the new system is fully adopted and operationalized. By the third contract year (and typically earlier), meaningful benefit realization measurements should be available. During the entire term of this contract, Citizens will have the ability to terminate the agreement, at our sole discretion, with 120 calendar days written notice.

During the third year of the initial five-year contract term, Citizens can evaluate whether to continue this contract for the remaining term, consider the future exercise of the optional renewal terms, or perhaps move toward a new solicitation with a different fraud analytics provider. For a complex technology solution, the procurement process can take nine (9) months or more to develop and complete a solicitation in accordance with s. 287.057, Florida Statutes. Then, two (2) to four (4)

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months are needed for Board approval to enter the resulting contract, with six (6) additional months to a year to implement a new solution. Citizens' staff will assess market conditions and vendor performance to inform the decision to renew, renegotiate, or conduct a new competitive solicitation.

Again, at any point during the contract term, if Citizens determines that the FRISS software is not providing a positive return on investment, Citizens has the option to terminate without cause upon 120 calendar days advance written notice.

## **Current Technology/Enhancement Considerations** –

A substantial amount of FRISS's annual operating budget is spent on continuing product research and development to remain a leader in this very competitive space. The core of their business is fraud and risk prevention through Software as a Service. As a result, their entire business model revolves around improving their technology and taking advantage of emerging technology to help better detect and prevent fraud, as well as to better understand risk. Below is a selection of FRISS product enhancements since the third quarter of 2021:

- AI Fraud Scenario Clustering - Based on the features of an AI model, FRISS clusters classifications together. Using these clusters, FRISS can automatically assign a label to a claim when it falls into a specific cluster. For example, grouping all fake hurricane claims together and showing this as a proposed type of fraud case to the adjuster and/or SIU handler.
- Image screening Application Programming Interface (API), which allows carriers to upload images and have them screened through the FRISS tool.
- Maps integration in the network viewer to visualize where claims occur.
- Integration between FRISS and Polonious Insurance Investigations (Polonious) case management solution.
- Adding an average of over 50 public data sources to their Underwriting Insights product each quarter.
- Improved network analysis using the National Insurance Crime Bureau (NICB), which creates optimized matches and an easier-to-read user interface.
- Guidewire PolicyCenter Accelerator to efficiently detect suspicious activity at point of sale.

In addition to ensuring their competitiveness in their industry, FRISS will invite representative(s) from Citizens to join as members of their Customer Advisory Board, following contract execution. Through this function, Citizens will contribute items/suggestions to the FRISS product roadmap and share their experiences with FRISS leadership.

## **Return on Investment (ROI)** –

FRISS provided the below information to clarify the estimated ROI Citizens may expect after fully utilizing this product. Citizens is seeking approval to utilize the FRISS tool to detect and investigate agency, underwriting and claims fraud. Please note that the example outlined below is not a guarantee but is reflective of the estimated impact based upon our 2021 claims volume of 32,462 and future forecasts.



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*Disclaimer: These numbers are estimates based on several assumptions. Due to external factors beyond our control, FRISS does not guarantee these or any other results - actual results may vary.*

	Year +1	Year +2	Year +3
<b>Number of claims - 2021 Calendar Year</b>	46,435	46,435	46,435
<b>Discoverable fraud out of total claims</b>	1.16%	1.98%	2.97%
<b>Average impact of discovered fraud case</b>	\$5,619.97	\$5,732.36	\$5,847.01
<b>Total economic impact from discovered fraud</b>	\$3,027,177.99	\$5,270,421.27	\$8,073,926.04
<b>Net impact after system costs (implementation plus subscription)</b>	<b>\$2,194,396.99</b>	<b>\$4,672,640.27</b>	<b>\$7,476,145.04</b>

The FRISS solution offers several configurable fields to track impact and financial metrics. Citizens will have the ability to adjust the fields as needed to track the benefit of the tool, along with other measures and metrics. In addition, FRISS allows Citizens to export reporting data for use in any typical tracking tools we may use, such as PowerBI.

The vendor acknowledges that false positives may be higher initially but anticipate alignment with lower rates seen in the industry within three (3) years. This is largely attributed to FRISS data scientists reviewing any errors or false positives with Citizens on a quarterly basis and working in conjunction with Citizens staff to make the appropriate adjustments to the system to reduce those moving forward.

## Fraud Analytics Software

**ACTION ITEM**

**New Contract**

**Contract Amendment**

**Other** \_\_\_\_\_

**CONSENT ITEM**

**Contract Amendment**

**Existing Contract Extension**

**Existing Contract Additional Spend**

**Previous Board Approval** \_\_\_\_\_

**Other** \_\_\_\_\_

**Action Items:** Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

**Move forward as Consent:** This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

**Consent Items:** Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Item Description	Fraud Analytics Software, ITN 21-0005
<p><b>Purpose/Scope</b></p>	<p>This Action Item seeks an approval of a contract with FRISS, Inc. to provide a Software as a Service (SaaS) solution that will provide actionable intelligence to identify, predict and prevent insurance fraud occurring through the property insurance lifecycle. This solution will provide Citizens the functionality to:</p> <ul style="list-style-type: none"> <li>• detect patterns, trends, and connections of people/events that would otherwise go undetected;</li> <li>• automate the identification of potentially fraudulent conduct occurring from point of sale through the claim process through analysis of near real-time internal and external data;</li> <li>• provide a simplified approach to the visualization and reporting of complex data that expose relational networks between discreet parties; and,</li> <li>• integrate with Citizens' Guidewire Insurance Suite (V9) from Guidewire Software, Inc. and have a high level of configurability with Microsoft data lake integration.</li> </ul> <p>This SaaS solution is expected to enhance the effectiveness of Citizens' fraud fighting efforts using data analytics across the enterprise to detect a higher volume of potentially fraudulent cases and streamline an approach to increase speed of detection and investigation. As a result, Citizens will be better equipped to achieve our overall goal of protecting Citizens policyholders and the State of Florida from insurance fraud related losses.</p>



## Fraud Analytics Software

<b>Contract ID</b>	Fraud Analytics Software ITN 21-0005 Recommended Vendor: FRISS, Inc.
<b>Budgeted Item</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Yes. Funding for this contract will be paid as an operational expense.
<b>Procurement Method</b>	On April 27, 2021, Citizens issued Fraud Analytics Software ITN 21-0005. Seven (7) proposals were received. On July 13, 2021, the Evaluation Committee conducted a public meeting to rank the replies following their review and selected five (5) vendors to proceed further with negotiations. On November 9, 2021, FRISS, Inc. was selected by the Negotiation Committee to be awarded the contract.
<b>Contract Amount</b>	The contract spend is based upon a five (5) year initial term of \$3.8 million, and \$2,295,000 for the one (1) three-year optional renewal term and \$1,530,000 for the one (1) two-year optional renewal term, totaling \$3,825,000 for the renewal terms.
<b>Contract Terms</b>	The contract will have a five (5) year initial term and one three (3) year and one two (2) year optional renewal terms.
<b>Committee Recommendation</b>	Staff proposes that the Claims Committee review, and if approved recommend the Board of Governors: <ul style="list-style-type: none"> <li>a) Authorize Citizens to contract with FRISS, Inc. for an initial term of five (5) years with one three-year and one two-year optional renewal terms, for an amount not to exceed \$7,625,000, as set forth in this Fraud Analytics Software Action Item; and</li> <li>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li> </ul>
<b>Board Recommendation from Committee</b>	If approved at its March 10, 2022 meeting, the Claims Committee recommends that the Board of Governors: <ul style="list-style-type: none"> <li>a) Approve FRISS, Inc. for an initial term of five (5) years with one three-year and one two-year optional renewal terms, for an amount not to exceed \$7,625,000, as set forth in this Fraud Analytics Software Action Item; and</li> <li>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li> </ul>
<b>Contacts</b>	Jay Adams, Chief Claims Officer