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LBI INSURANCE FRAUD RISK MANAGEMENT POLICY

Level 2 Policy Number: P08.03

Version/Date
Version 8/ Approved July 2025

Division	Land Bank Life Insurance Company SOC Ltd (LBLIC) Land Bank Insurance SOC Ltd (LBIC)
Policy Reference	P08.03
Version	Version 8
Category	Category 1- Board

Effective Date	01/07/2025
Next Review Date	30/06/2027

Policy Owner: (Head of Risk)	T Tisane	Signature	dd/mm/yyyy
Supporter (Managing Director)	P Siphugu	Signature	dd/mm/yyyy
Sponsor (Board Chairperson)	S Masuku	Signature	dd/mm/yyyy

Does the policy require recurring communication?

Yes	X	**Frequency:**	**Annually**	
			Biennial	X
No				

1. INTRODUCTION

The Insurance sector has been negatively affected by fraudulent claims and surrenders. These are the biggest concerns. Fraud risk in insurance affects both the policyholder and the insurer. Insurance fraud is one of the most serious problems threatening the viability of insurance companies. Insurance fraud is driving up the overall costs of insurers and premiums for policyholders. It encompasses a wide range of illicit practices and illegal acts. Insurance companies witness an increase in the number of frauds while Risk Management is acquiring monumental importance in the insurance industry, mainly since the introduction of the Solvency Assessment Management, and more onus has been put on insurance companies to be more risk averse.

This document sets out the policy of the Land Bank Life Insurance Company (SOC) Limited and Land Bank Insurance (SOC) Limited ("Herein referred to as Land Bank Insurance" or "LBI") towards managing Insurance Fraud Risk in line with the Governance and Operational Standards for Insurers (GOI) as set out by the Prudential Authority.

LBI is a company established as a subsidiary of the Land Bank that offers insurance to farmers and the overall agricultural sector. LBI offers long-term and short-term insurance under LBIC SOC Limited and LBLIC SOC Limited, respectively. Short-term insurance includes asset insurance cover on everything that has to do with farming requirements, i.e. vehicles, farming, irrigation, machinery, livestock and computers. Assets are insured against fire, flooding, theft and natural disasters. Crop insurance covers crop failure due to excessive hail, frost, wind and physical damage to the whole or part of the insured crop and protects against loss of income. In addition, LBLIC offers life cover to farmers.

LBIC shareholders and the Board manage risks associated with operations through well-defined policies and procedures. The Insurance Fraud Risk Management Policy is defined in relation to:

- Prudential Authority (PA)
- Insurance Act 18 of 2017 and the GOIs (specifically GOI 3, Section 6.1 and GOI 3, Attachment 1, Section G)

This policy will consider how the effectiveness of fraud risk management may be enhanced by contributing towards industry-wide initiatives to deter, prevent, detect, report and remedy insurance fraud.

This policy must be read together with the following:

- Fraud Prevention Strategy,
- Whistleblowing Policy,
- Disciplinary Policy,
- Fit and Proper Policy,
- LBI Code of Ethics and Business Conduct, and
- Operational Risk Management Policy and Enterprise Risk Management.

These policies can be found on the Land Bank Intranet, under the Document Centre Management Section and subsection relating to LBIC Policies.

2. OBJECTIVES OF THE POLICY

The purpose of this policy is to provide the Board of LBI and its sub-committees with the following:

2.1 An outline of appropriate strategies, procedures and controls to deter, prevent, detect, report and remedy insurance fraud and to effectively manage fraud risk and possible risks to the insurer's financial soundness or sustainability caused by fraud.

2.2 Identification of sources of insurance fraud, including: employees, suppliers, service providers, clients, brokers and underwriting management agents.

2.3 Support of ethical work practices through individual behaviour and decision-making.

3. CORPORATE GOVERNANCE

- LBI, through the Audit and Risk Committee, has given a firm commitment that the company will manage Insurance Fraud Risks, tighten accountability and improve transparency and that all its staff will be responsible for their actions;
- LBI expects all staff to approach their responsibilities, work and dealings with colleagues in accordance with the company values.

4. SCOPE OF THE POLICY

This policy applies to the management of Insurance Fraud Risk, including all allegations, attempts and incidents of insurance fraud impacting or having the potential to impact the LBI, policyholders, suppliers, associates and brokers and underwriting management agents appointed by brokers. All employees of the LBI must comply with the spirit and content of the Policy.

All insurance fraud will be investigated and followed up by applying all remedies available within the full extent of the South African law and implementing appropriate prevention and detection controls. These prevention controls include the existing financial and other controls and checking mechanisms prescribed in the systems, policies, procedures, rules and regulations of the LBI. Prevention controls include:

- Internal Audit reviews of operating controls and implementation of policies and processes
- Residual risk management from the quarterly risk registers
- External Audit findings
- Key control/risk indicators
- Adherence and compliance to all Governance and Operational Standards for Insurers (GOI), Insurance Act, FSCA and Prudential Authority requirements

The efficient application of Treasury Regulations issued in terms of the PFMA instructions and Financial Sector Conduct Authority and contained in the policies and procedures of the LBI is one of the most important duties to be applied by every employee in the execution of their daily tasks.

5. DEFINITION OF Insurance FRAUD

Insurance Fraud is any act committed with the intent to obtain a fraudulent outcome from an insurance process. For example, this may occur when a claimant attempts to obtain some benefit or advantage to which they were not entitled, or when an insurer knowingly denies some benefit that is due. LBI, by its nature of being an Insurance company, is susceptible to fraud.

Insurance is a risk distribution system that requires the accumulation of liquid assets in the form of reserve funds available to pay loss claims. As a result, insurance companies generally generate a large steady flow of cash through insurance premiums, which makes insurance companies attractive targets for fraud schemes. There are three broad categories of fraud:

- **Policyholder and claims fraud** – Fraud against an insurer by the policyholder and/or other parties in the purchase and/or execution of an insurance product
- **Intermediary fraud** – Fraud by intermediaries against insurer or policyholder. This includes brokers and Underwriting Management Agents.
- **Internal Fraud** – Fraud against an insurer by an employee on his/her violation or in collusion with internal or external parties to an insurer.

Insurance companies have the following key areas of risk exposure to fraud:

- Claims/surrender
- Premiums
- Applications
- Pre-assessment
- Employee related fraud
- Vendor-related third-party fraud
- Brokerage
- Underwriting Managing Agents (UMA's)

6. INSURANCE FRAUD RISK ASSESSMENT

LBI is committed to Insurance fraud control, which is met by identifying opportunities for insurance fraud and implementing risk avoidance, prevention and minimization procedures in day-to-day operations. LBI Risk Management with the support of the LB Forensic Function will on an annual basis, facilitate formal fraud risk assessment across the value chain, and a risk register with controls will be produced or updated.

6.1 Principles

- Insurance Fraud Risk is discussed openly and constructively at all levels to promote a positive risk management culture. Integrity, independence, and accountability are at all times visible and demonstrable. Management has responsibility for managing insurance fraud risk, which is assessed in the context of probability and impact.
- Procedures must be in place to monitor activities and safeguard assets, particularly in high-risk areas. These must be reviewed and updated regularly. The recommended period is annual;
- Appropriate authorization policies for transactions must be established and maintained;
- Investigation of fraudulent and corrupt activity must be followed in all cases by a review of controls to ensure that existing controls are enhanced to reduce future vulnerability. Where appropriate, changes will be made to investigation and internal audit testing, training materials and policies and procedures;
- During system development, maintenance and enhancement, due consideration must be given to ensuring adequate fraud risk control mechanisms are incorporated within the system and associated procedures; and
- Investigation records must be maintained to identify trends in fraudulent and corrupt activity.

7. TYPES OF INSURANCE FRAUD

7.1 Agent/Broker Fraud

- Surrender value payment to the fictitious account.
- Settlement payment into the fictitious account.
- Premium fraud is where an agent or broker collects a premium but does not remit it to LBI. The insured has no coverage.
- Fictitious death claim.

7.2 Underwriting irregularities

- Misrepresentation - sales agent makes a false statement with the intent to deceive the prospective insured to obtain unlawful gain.
- Equity funding techniques – company prices the amount of life insurance on the books but receives no or little new funds while incurring increased sales and administrative expenses.
- **False information:**
    - Improper medical details on the prospective policyholder to get a better insurable rate.
    - Improper date of birth to obtain a cheaper premium on a new policy.
- **Fictitious policies -** Submission of fictitious policies to improve underwriting record to increase commission. These are called tombstones.

7.3 Sliding

This is a term used for including additional coverages in an insurance policy without the insured's knowledge. As a result, the extra charges are hidden in the total premium, and the insured is unaware of the coverage.

7.4 Twisting

This is the replacement of existing policies for new ones. As a result, agents' profits are higher in first-year sales as commissions are higher than existing policies.

7.5 Fraudulent Death Claims

Fake death certificates are issued – with small claims, death claims are not closely scrutinized and are paid relatively quickly.

8. STRATEGIC CONSIDERATION

8.1 Operational risk assessments and reviews are essential to any fraud prevention plan. Therefore, the identification and review of risks, including fraud risks, is conducted periodically in all business units of LBI.

8.2 While a formal Fraud and Corruption policy is vital, preventing fraud must become integral to all operational plans.

8.3 Employees and others involved in fraud must be prosecuted to the full extent of the law. LBI reserves the right to have employees, Consultants, Services providers, people and organisations dealing with LBI, checked for criminal records before getting officially involved with LBI.

8.4 A comprehensive awareness campaign supported by education and training is part of the overall policy to prevent fraud.

8.5 Land Bank ICT helps LBI identify and manage fraud risks. One of the objectives of the Land Bank IT Governance Framework and IT Governance Policy is to create IT risk awareness, understand the IT

risk appetite and manage the risks accordingly.

9. REPORTING PROCEDURES PROTOCOL

Should an employee of LBI suspect insurance fraud, the following are the minimum requirements that needs to be adhered to:

9.1 It is the responsibility of all employees to immediately report all allegations or incidents of insurance fraud to their immediate supervisor or any manager.

9.2 Employees are encouraged to assist in the resolution of all allegations of insurance fraud. Should employees be concerned with the abovementioned reporting channel, they may report directly to the LBI Head of Risk, Chief Audit Executive or the Chairperson of the Audit and Risk Committee.

9.3 Those in supervisory and managerial positions are ultimately responsible for the detection, prevention and investigation of insurance fraud and must report all incidents and allegations of fraud to the Head of Risk and Chief Audit Executive.

9.4 Should employees wish to report allegations of insurance fraud anonymously, they can contact the LBI fraud hotline Free call (0800 004 003), Free Fax (0800 00 77 88), Email (landbank@behonest.com) and any member of Management, Head of Risk, Chief Audit Executive, the Chairperson of the Audit and Risk Committee or the Chairperson of the Board of Directors of the LBIC and LBLIC. Although anonymous reports will be accepted, it is easier to pursue allegations where whistleblowers are known because of the following:

- Employees can be contacted if further information is required or to seek clarification regarding the incidents reported; and
- It will be easier for employees to claim protection in terms of the LBI Whistle Blowing Policy.

9.5 The LBI encourages customers, providers of goods and/or services and members of the public who suspect insurance fraud to contact the LBI's fraud hotline, any member of management, Head of Risk, Chief Audit Executive or the Chairperson of the Audit and Risk Committee.

9.6 Any insurance fraud committed by an employee or any other person will be pursued by a thorough investigation and to the full extent of the law, including (where appropriate) consideration of:

a) In the case of employees, taking disciplinary action within a reasonable period after the incident;
b) Instituting civil action to recover losses;
c) Initiating criminal prosecution by reporting the matter to the SAPS or any other relevant law enforcement agency; and
d) Any other appropriate resolution.

9.7 LBI will be obligated to report any incident or acts of fraud by Independent Intermediaries to the Financial Sector Conduct Authority.

9.8 The Head of Risk will provide for the prompt reporting of insurance fraud to relevant regulatory authorities.

9.9 The Head of Finance is required to ensure that losses or damages suffered by the LBI as a result of all reported acts committed or omitted by an employee or any other person are recovered from such an employee or other person if he or she is found to be liable for such losses.

9.10 The Head of Finance must also ensure that the following steps are taken concerning financial misconduct in line with the provisions of applicable laws, LBI and/or LBI policies, the Treasury Regulations to the PFMA:

a) Ensuring that disciplinary proceedings are pursued;

b) Ensuring that the annual report and financial statements include particulars of -

(i) Any material losses through insurance fraud and any irregular expenditure and fruitless expenditure that occurred during the financial year;

(j) Any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure which was as a result of insurance fraud; and

(ii) Any losses recovered or written off.

10. STRATEGIES IN RESPECT OF THE MANAGEMENT OF INSURANCE FRAUD RISK

The insurance industry is going through a sea of change with operational costs, regulatory pressures, competition and claim expenses, which are increasing. Annual losses to fraud claims have also been growing. A fraud management strategy consists of four elements:

- Prevention
- Detection
- Investigation
- Resolution

Various mitigation measures can be taken into account, namely:

- Early detection by employees, managers, senior management and EXCO is important
- For claim fraud – A hybrid approach to detection can be used, using a combination of profiling rules to filter fraudulent transactions using analytics
- Timeous submission of claims
- Agent "Know Your Customer" (KYC) scorecard
- A centralised KYC database
- A risk-based approach
- Intelligent software for transaction monitoring and screening
- Checking for:
  - Percentage commission rebating
  - Fake documentation
  - Collusion between parties
  - Miss-selling
- Fraud management should form part of the business strategy
- Ensure that LBI has a defined methodology that is consistent in determining fraud
- Effective fraud analytics and dashboards

To mitigate Fraud Risk, the following are important for LBI

- Ethical 'tone at the top', an atmosphere that starts in the Boardroom and trickles down through middle management to all employees
- Screening all new employees using industry best practice
- Evaluating and updating the definition of fraud. Fraud techniques are constantly changing and are incredibly fluid and dynamic. Processes and procedures need to be routinely updated to mitigate against losses
- Prioritising the various frauds and ensuring risk registers and incidents are proactively managed
- Implementing applicable and appropriate anti-fraud technology

- Ensuring the Business Code of Conduct and Ethics fraud hotline processes and procedures are relevant to all employers and employees are adequately trained to handle fraud
- Transparency is important, and LBI has a flat structure ensuring the fraud risk management strategies are appropriate and holistic
- LBI ensures that the risk management cycle is not a once-off effort but a cyclical evolving process to mitigate against new fraud risks that arise.

11. CONFIDENTIALITY

11.1 All information about insurance fraud received and investigated will be treated confidentially. The progression of investigations will be handled confidentially. It will not be disclosed or discussed with any person(s) other than those with a legitimate right to such information. This is important to avoid harming the reputations of suspected persons who are subsequently found innocent of wrongful conduct.

11.2 No person is authorised to supply any information concerning allegations or incidents of fraud to the media without the express permission of the MD of LBI.

12. PUBLICATION OF SANCTIONS

12.1 In consultation with the Chairperson of Board of Directors, the MD will decide whether any information relating to corrective actions taken or sanctions imposed regarding incidents of insurance fraud should be brought to the direct attention of any person or made public through any other means.

12.2 This information may include statistics on the number of employees, types of fraud and the actions taken to convey the message that fraud will not be tolerated. This will deter other potential offenders, subject to the usual restrictions on reporting legal proceedings.

13. PROTECTION OF WHISTLE-BLOWERS

13.1 The LBI Whistle Blowing Policy is intended to encourage employees to raise serious concerns about, among other things, fraud without fear of victimization.

13.2 No person will suffer any penalty or retribution for reporting any suspected or actual fraud incident in good faith that occurred within the LBI.

13.3 An employee will be protected even if the allegations are found to be unsubstantiated upon investigation.

13.4 All executives and managers should discourage employees or other persons from making false allegations with malicious intentions. Where such allegations are discovered, the person who made the allegations must be subjected to firm disciplinary and/or other appropriate action.

14. APPLICATION OF PREVENTION CONTROLS AND DETECTION MECHANISMS

14.1 In respect of all reported incidents of fraud, management is required to immediately review, and, where possible, improve the effectiveness of the controls that have been breached to prevent similar irregularities from occurring.

15. CREATING AWARENESS OF INSURANCE FRAUD RISK AND TRAINING

15.1 All managers must ensure that all employees are made aware of and receive appropriate

training and education concerning this policy.

15.2 Regarding Fraud Prevention Strategy, the Forensic Function will facilitate annual the fraud awareness training for its employees and other stakeholders.

16. RELEVANT LEGISLATION

16.1 Protected Disclosures Act, No 26 of 2000.

16.2 Criminal Procedure Act, No 51 of 1977

16.3 Prevention of Organised Crime Act 121 of 1998

16.4 Prevention and Combating of Corrupt Activities Act, 12 Of 2004;

16.5 South African Police Service Act 68 of 1995.

17. ADMINISTRATION

17.1 The custodian of this policy is the Managing Director, who is supported in its implementation by all managers of the LBI.

17.2 The Head of Risk is responsible for administrating, revising, and interpreting this policy. This policy will be reviewed every two years (biennial), and appropriate changes will be made should these be required.