Balancing the Insurance Equation: Understanding the Climate for Managing Consumer Insurance Fraud and Abuse

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**Abstract:** Consumer insurance fraud and abuse (CIFA) is the subject of considerable managerial, regulatory, and judicial attention. Across all sectors, this issue may represent the misallocation in the US alone of potentially hundreds of billions of dollars, with monitoring and remedial costs contributing potentially billions more. This problem is most often addressed as a matter of claimant dishonesty without further investigation of possibly contributing precursors. Using a national survey of US adults (2007), this paper identifies factors contributing to the societal climate surrounding acceptance of consumer insurance fraud and abuse, and its further disposition by insurers and regulators. The results suggest that the treatment of this allegedly prevalent problem in continuing isolation from insurer as well as regulatory practice will not address underlying, causal elements and will likely perpetuate the social problem.

Factors contributing to the acceptance of CIFA include social norms about fraudulent acts, perceptions about the (in)equity of insurance exchanges, the level of concern about insurance fraud, and one’s personal ethical stance. The level of acceptance of fraud, in addition to the magnitude of one’s acceptance of CIFA, jointly contribute to how an individual contemplates strategies for society’s management of this problem—i.e., whether we should continue to follow current policies (pay all legitimate claims or portions thereof), pay all claims, or become more aggressive in the pursuit of fraudulent claims and offenders (deny future insurance, seek reimbursement for false claims). Insurers should seek solutions to this cycle of mistrust and inequity through improved education about the terms of insurance (manage expectations) and improved management of the customer–insurer relationship throughout its life. [Key words: insurance fraud, ethics, claims practices, regulation]

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INTRODUCTION

Consumer insurance fraud and abuse is inherent in all personal lines, and its management has given rise to enormous monitoring costs among insurers and regulators (e.g., Lesch and Byars, 2008). However, considerable differences have been observed in the definition, management, and disposition of consumer insurance fraud and abuse (CIFA), leading many commentators to conclude that the social construction of CIFA is at least as important as, if not more important than, formal, legal tidiness (e.g., Baker, 1994; Stone, 1994). Despite its financial enormity (Fraud Focus, 2008; Hays, 2010), very few published studies can be found to explain the origins and processes surrounding consumers’ fraudulent and abusive behavior in this context. Most depart from the view that critical insurer roles include the validation of all and only legitimate claims, thus ensuring the integrity of the insurance process and insurer financial stability. However, a few have pointed out the conflicted role assumed by the insurer in this equation. Insurer business goals, claims procedures, and standards differ, clouding the climate for reimbursement and/or tolerance for fraud and abuse (Der-pig, 2002; Ericson, Doyle, and Barry 2003). Practically, a fraudulent or abusive claim is, from an insurer’s point of view, what we decide it is, resulting in a set of circumstances destined for potentially repetitive conflict.3

Not that claimants or policy holders agree, of course. Legitimate differences in expectations, and in some cases, real conflict, arise from the context of the insurance transaction as a result of several factors. From the outset, consumers cannot know what they buy, since insurers and regulators do not routinely afford, ex ante, transparency in the terms of policies (Glenn, 2003; Schwarcz, 2011); nor, absent a complaint, does either institution reveal the actual procedures to be employed in claims settlement.4 The

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3 Estimates of annual cost of CIFA to policyholders as a “pass through” by private insurers vary, but in the United States the Coalition Against Insurance Fraud (CAIF) placed illegitimate losses from property-casualty (CIFA) to be in the range of $80 billion annually (Fraud Focus, 2008). Fraud and abuse arising from within the property-casualty lines in the state of California alone may contribute some $15 billion annually (Fraud Focus, 2008). Both organized crime and individual policyholders contribute, although it is widely believed that the latter contribute the bulk of losses on the basis of opportunistic claimant behavior (e.g., Carroll and Abrahamse, 2001; Lesch and Byars, 2008), and that it increases during recessions (e.g., Pugh, 2010). Indeed, the referral of “questionable claims” to the industry’s National Insurance Crime Bureau has risen steadily from 2009 (84,407) to 2011 (100,450) (Scafidi, 2012).

4 In fact, a claimant with unusually strong insights into claims settlement practices may be taken by claims adjustors as reason for enhanced suspicion about the validity of the claim, a so-called “red flag.”
complexity (e.g., Harding, 1967; Carr, 2010) and adhesive nature of these contracts, as well as their increasing heterogeneity, has been a source of considerable frustration on the part of consumers, at times leading to allegations of market manipulation (Schwarcz, 2009, 2011). Thirdly, insurer bad faith (e.g., Berardinelli, 2008), or on the other hand, claimant fraud and abuse (e.g., Dornstein, 1998), may predispose settlement to conflict. The regulation of insurers’ procedures and policy terms differ from state to state, sometimes markedly so, such that today’s mobile consumers may perceive a lack of reliability in the insurance product/service, even if they previously understood one or more stated policy terms of coverage (Schwarcz, 2011). Finally, the collaborative nature of the insurance settlement process, often involving multiple service providers, injects considerable uncertainty into the process. This may manifest in role ambiguities and frustration among claimants. Absent recognition and remediation by the insurer and/or regulator, these ambiguities contribute to the development of poor service relationships.

Surveys of insurance customers routinely reveal the limited knowledge and understanding of insurance contracts (e.g., Metlife, 2010a, 2010b). Regulatory market conduct studies fall short in their ability to index insurer-insured relations occurring with considerable irregularity within and among the states and across insurers. These studies cannot be expected to function as effective extemporaneous backstops for fair treatment, or for customer satisfaction. Moreover, the process of “mail-bagging”—i.e., reliance upon the investigation of consumer complaints—is a poor substitute for any reading of policyholder relations for purposes of regulators or insurers, failing to identify or redress what remains unspoken and without satisfaction in the business–to-consumer relationship of insurance. Regulation of the industry, it seems, has come up short, balancing on one hand the interests of policy holders and/or claimants and on the other, industry provisions. This continues to manifest in heavy societal monitoring costs in the form of legislative oversight, pervasive regulatory institutions and rules, and the prevalence of judicial interventions (Lesch and Byars, 2008).6

Empirical evidence from the fields of marketing and insurance suggest that disgruntled consumers may retaliate as a result of attributed unfair or inequitable treatment. This retaliation can be expressed in this context as consumer insurance fraud and abuse. These behaviors represent consumers’ efforts to “level” the playing field and restore equity to business-

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5A query of the North Dakota insurance website, for example, reveals that no market conduct study has been conducted by the Insurance Commissioner’s office since 2007 (confirmed by personal communication to the senior author, May 8, 2012).
consumer relationships. Insurer behavior and regulatory inadequacies can thus be attributed as more than bystander roles in observed levels of CIFA.

Using consumer data from a national survey, this paper explicates a macro-level model of CIFA which extends earlier work in this area (e.g., Tennyson, 1997, 2002; Lesch and Baker, 2011; Baker and Lesch, 2012). The model reflects consumer predispositions to, and acceptance of, CIFA, as well as preferences for the management of claims/claimants involving alleged CIFA. The resulting structural equation model (SEM) identifies a cluster of individual and social factors contributing to the climate of CIFA and also reveals consumer preferences for the management of alleged infractions. These results as well as a discussion of the regulatory and policy considerations of our model are also presented.

MODELING THE CLIMATE FOR THE ACCEPTABILITY OF CONSUMER INSURANCE FRAUD AND ITS SOCIAL MANAGEMENT

Bandura (1999) aptly pointed out that a mixed model, i.e., one including intrapersonal as well as social factors, affords researchers the richest explanation of why people behave the ways they do. Controlling for age and gender, we advance a seven-factor model that includes both intrapersonal and social factors to explain consumer acceptance of CIFA and its social management (Figure 1).

Climate is introduced here to reflect the system of social and ethical components surrounding decisions by individuals and society concerning CIFA. Climate comprises of six primary components and their interplay, including social norms and conceptions of equity/justice, ethical standards and rationalization, personal concern, and overall level of acceptance. A seventh factor, disposition, poses societal preference(s) for governance.

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6 Industry and regulators in the United States have responded, in multi-level fashion (e.g., Lesch and Byars, 2008; Insurance Information Institute, 2012), by implementing a range of deterrent and punitive measures to offset the problem. Industry has developed extensive expertise in detection and rejection of illegitimate claims. In addition to routine claims adjustment, most insurers have in- or out-of-house special investigative units to gather information pursuant to validation, or in the extreme, action leading to prosecution. Most states have enacted statutes classifying insurance fraud as a crime. Most have bureaus to field and warehouse questionable claims referrals from industry and the public, and many require insurers to present an approved anti-fraud plan (Insurance Information Institute, 2012).
Social Norms, Fairness, and Acceptance/Opposition Norms

Social psychologists have long contended that social norms exert powerful influences on individuals’ behaviors. Studies of CIFA have, on occasion, included these in the explanation of attitudes or proscriptive

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7Our research is most analogous to the concept of tax morale to explain compliance/non-compliance (claiming behavior) with tax authorities (e.g., Torgler, 2008; Torgler et al., 2008; Schnellenbach, 2006). These models utilize social norms and social dynamics, perceived justice, and institutional quality, along with demographic and personal ethics or morals to predict claimant behavior (use of deductions, paid tax, or tax liability). As noted by Blumenthal, Christian, and Slemrod (2001), “[A] person’s moral obligation to pay taxes flows from feelings about right and wrong, ultimately from attitudes about the appropriateness of social norms and laws” (p. 126). Tax morale provides a relevant exemplar for this study in that (a) tax claiming includes asymmetries of information on the claimant’s part, many of which escape third-party detection by any means, (b) tax compliance rates are perhaps not dissimilar to some estimates of insurance claim files deemed “fairly closed,” and (c) both contexts have evolved to include a healthy dose of “opposition norms” (see below). Comparatively, the IRS estimated that for 2006 (most recent year of study), personal tax liabilities were under-reported by some 17% (Fram, 2012).
behavior utilizing scenario analyses. Generally speaking, social norms have been defined as the beliefs about how members of a group should act in specific situations (DeRidder and Tripathi, 1992).

Various authors established early normative benchmarks for the (in) appropriateness of false or misrepresentative insurance claiming (Wilkes, 1978; Vitell and Muncy, 1992). Wilkes discovered that most respondents projected that nearly one-half (46%) would exaggerate a claim either most of the time or once in a while. Vitell and Muncy, however, found that more than nine in ten participants (92%) agreed that an outright fraudulent claim (false claim) was wrong, and that the perception of ethicality was linked with attitudes toward business and the level of legality of the proposed transaction. Similarly, Fullerton, Kerch, and Dodge (1996) found in a national sample of adults that an inflated insurance claim was seen as the least acceptable among a series of fifteen consumer behavior alternatives.

Tennyson’s (1997, 2002) examination of national survey data (collected in 1991 and 1997) demonstrated that consumers believed various forms of CIFA to be quite prevalent, with roughly 90% (1997) of respondents agreeing that any of five CIFA consumer behaviors were common. The earlier study established a strong statistical relationship between social views toward CIFA and the appropriateness of engaging in CIFA that recovered either a deductible or premium dollars. Very few consumers “approved” of a range of proposed fraudulent actions. However, persons with claims experience were not as tolerant as those without such experience, leading the author to conclude that there was a role for the industry to educate (or re-educate) claimants about expected claimant behavior (Tennyson, 2002). Comparing a convenience sample of German and Norwegian students, Brinkmann and Lentz (2006) found Norwegians to be more stringent in assessing the appropriateness of insurance claim behavior, including misrepresentation or those with exaggerated claims, than their German counterparts. Other industry-sponsored surveys (Coalition Against Insurance Fraud, 1997, 2007) have reported consumer attributions of high levels of prevalence for various forms of insurance fraud, and a recent survey conducted in New York state revealed that nearly one-half of adults polled were in agreement that insurance premiums were predicated on the assumption that “everyone submits some false claims” (New York Alliance Against Insurance Fraud, 2007).

These studies demonstrate a contradiction, or normative conflict, for consumers. The data show a stated preference for ethical behavior, when, in fact, industry experience and quasi-experimental evidence suggests that the norm for some is contrary behavior.
**Fairness/Equity/Justice.** A cogent theoretical perspective to understand the origins of the discontinuity between social norms and observed behavior is offered by Thibaut and Kelley’s (1959) social exchange theory (SET), rooted in notions of reciprocal exchange. As one individual gives to another, the other returns in some measure, what was given (Bothamley, 1993; Thibaut and Kelley, 1959). The balance of the exchange is not always equal however, and SET explains that how an individual feels about a relationship, and the exchanges within the relationship, depend upon the perceptions of the difference between relational inputs, the kind of relationship we think we deserve, and the chances of having a better relationship with someone else, or the attractiveness of alternatives (Thibaut and Kelley, 1959).

Equity theory, a logical extension of SET, suggests that people evaluate their satisfaction with a relationship by the ratio of inputs they contribute to the outputs received (Adams, 1965). Equity theory suggests that people evaluate the fairness of the relationship by looking at more than their own personal cost-benefit equation. Individuals determine the fairness of the relationship by comparing their perceived outcomes to their inputs with the perceived outcomes and inputs of others in the relationship (Samaha, Palmatier, and Dant, 2011). Equity theory provides the theoretical foundation for the business-to-business and business-to-consumer fairness literatures (e.g., Kumar, Scheer, and Steenkamp, 1995; Samaha, Palmatier, and Dant, 2011; Haws and Bearden, 2006) and serves as a theoretical extension for much of the work examining distributive justice in the marketing and exchange context (e.g., Messick and Cook, 1983; Clark, Adjei, and Yancey, 2009). This connection to the justice literature stems from the fairness evaluation of an outcome associated with a dispute, negotiation, or decision involving two or more parties (Blodgett, Hill, and Tax, 1997).

Perceived unfairness may be motivating fraudulent behaviors (Miyazaki, 2009; Costonis and Bramblet, 2010). Lesch and Brinkmann (2011) argued that the credence qualities of insurance as well as perceived inequities in the relationship by consumers contribute to the climate of acceptance surrounding CIFA. Recent qualitative interviews with male drivers in England suggests that “average” citizens’ attributions about the appearance and behavior of those engaged in CIFA included a “plausible story,” narrated by an “inconspicuous” claimant, and an industry that can well afford to pay such claims (Palasinski, 2009).

Costonis’s research (above) is highly consistent with research in the broader field of marketing in consumer voice (Hirschman, 1970) arising from perceived unfairness. This voice can assume a number of forms, ranging from dissatisfaction, to avoidance, to retaliation, but in all models, inequity plays a large role. Service failures are seen as the impetus for a
series of processes that, depending upon the efforts by the service-provider, may or may not result in successful “service recovery.” Blodgett (1994) demonstrated that the most important predictor of either negative word-of-mouth, or re-patronage intention following a product failure was perceived justice in treatment. More recently, extended models offered by Gregoire, Laufer, and Tripp (2010) and Bougie, Peltier, and Zeelenberg (2003) depart from an initial, unsatisfactory service encounter predicated in whole or in part upon perceived inequity in the exchange. An affective response (anger) ensues, resulting in motives for revenge predicated on the goal of restoring equity to the exchange. Tactically, revenge may be effected either indirectly (e.g., complaining, negative word-of-mouth) or directly (e.g., marketplace aggression, vindictive complaining). The extended model successfully incorporates customer perceptions of the firm’s greed to be taken into account before the affective response as well as customers’ perceived power in the choice / level of marketplace revenge. A similar set of models has been used within the organizational setting to explain retaliation (e.g., Barclay, Skarlicki, and Pugh, 2005).

Opposition Norms/Acceptance. As offered by Nee (2003, 2005), “when the formal rules are at odds with the interests and identity of individuals in close-knit groups, by the welfare-maximizing hypothesis, predicts the rise of opposition norms that facilitate, motivate and govern the action of individuals in those groups” (2003, p. 33). Opposition norms may spawn from the disconnect between organizational incentives and disincentives on the one hand, and the needs, interests, and preferences of individuals, on the other; in the case of a decoupling, opposition norms result (Nee, 2005, p. 59).

Nee and Ingram (1998) further explain that when formal and informal norms are closely coupled, monitoring costs will be low; the alternative places a high burden on the state for policing and regulation as means to achieve cooperation (Lesch and Byars, 2008), and introduces considerable uncertainty into transactions, lowering organizational performance (Nee and Ingram, p. 34). Perhaps no pair of societal institutions better illustrates this context, or is subject to more public or private discourse in

8Indeed, the industry performed poorly in a recent survey of American and British consumers by Halliburton and Poenaru (2010), where less than one-half of those polled (48%) reported trust in their insurance providers. In the U.S. setting, management policies, past customer experience, and reputation were factors noted. Moreover, recent highly publicized practices in claims management that resulted in lower-than-expected settlements by some large property casualty companies have received intense criticism (e.g., Berardinelli, 2008) and, in a recent case, resulted in a multi-state regulatory agreement (Illinois Department of Insurance, 2011).
demonstration of the effects of decoupling, than tax authorities and insurance companies.

The culmination of these factors can be characterized as the acceptance of CIFA, a resolution with respect to social norms, ethical standards, use of rationalizations, and level of arousal or involvement evinced by the (offending) behavior(s). We characterize acceptance as a cluster of beliefs containing a prescriptive element (injunctive social norm), and otherwise characterizing opposition norms.

In sum, consumers expect to be “fairly treated” in their relationships with insurers, i.e., receive a just return on their inputs to the relationship, resulting in satisfaction and the desire for its continuance (Fisk and Young, 1985). However, if the consequences of relational dynamics produce perceptions of unfairness or inequity, the consumer is likely to take remedial action(s), including punitive, in an effort to bring the situation into a more equitable state (Adams, 1965; Kaufmann and Stern, 1988). The norm for behavioral interaction with insurers has, in contradiction to the stated standard for many, become a societally accepted, opposition norm. The following hypotheses apply:

H1: Higher perceived prevalence of CIFA (descriptive norm) is positively related to feelings of inequity in the insurer-consumer relationship.

H2: Higher perceived prevalence of CIFA (descriptive norm) is positively related to acceptance of CIFA.

H3: Higher perceived inequity in the consumer-insurer relationship is positively related to acceptance of CIFA.

Intrapersonal Processes: Personal Ethics, Rationalization and Concern

*Personal Ethic and Relationship with Rationalization.* Ethical standards in and of themselves have received considerable attention at all levels (personal, organizational), and are the subject of many (even) disparate conceptions and definitions. One’s moral philosophy surely plays an important role, with evidence suggesting that for some, ethics are more situational/(relativistic), and for others, ethical solutions are the result of idealism and the application of ethical principles of more rigid nature (e.g., Hastings and Finegan, 2011). Moral intensity (e.g., Jones, 1991) suggests also that the application of an ethical standard, like a social norm, depends upon the salience of the standard. Contexts including vivid and salient stimuli are more likely to activate the relevant standard(s), resulting in affective if not behavioral response. A principal dilemma in the ethics
literature is to explain the often-present gap between actors’ ethical stance and their behavior. In the present case, this gap is illustrated by the stated high degree of disdain by policy-holders for CIFA, and the observed (in some contexts high) levels of CIFA in the marketplace. As already observed, ethical standards are not an in utero phenomenon; rather, they are derived through processes of socialization.

People like to think of themselves as honest (Mazar, Amir, and Ariely, 2008). This inconsistency between fundamental beliefs about the ethical self and the environment provoking unethical behaviors will then create, within the self, a certain amount of tension. Mazar, Amir, and Ariely (2008) found that behaviors that are malleable can be categorized as either honest or dishonest depending on context. This suggests that context may allow for the rationalization of unethical behaviors as ethical. Moreover, individual behavior often provides for defining an ethic within a range, rather than as an outright black, or white, attribution.

Following theories of self, Bandura (1999) illustrated that public discourse surrounding the most horrific of ethical lapses is observed concomitant to expressions of rationalization. These failures arise through the use of any of a series of possible justificatory mechanisms that enable disengagement of moral standards, which themselves originate in social intercourse. Devices include moral re-construals, the use of euphemistic labeling, advantageous comparisons, the displacement of responsibility, diffusion of responsibility, disregard or distortion of consequences, dehumanization, attribution of blame, and/or moral disengagement. These forms of self-deception permit behaviors that otherwise would be deemed to be unethical (and thus be sanctioned), to occur. Similarly, these mechanisms constitute causal factors and processes (protective) in the development of what Tenbrunsel and Messick (2004) refer to as ethical fading. Tenbrunsel et al. (2010), attempting to further explain the difference between how ethical we believe the self to be and how this differs from behavior, outline a range of distortions engaged by the self to rebalance the “is” with the “should.” Not unlike Bandura’s rationalizations, these include re-construals (more positive in memory than in reality), memory revisions (selective retention), rationalizations, and re-adjustments of ethical standards. Thus, the gap between proscriptive ethical standards and actual behavior can be neutralized.

Self-deception and rationalization are well-documented phenomena in the social sciences (e.g., Sykes and Matza, 1957). In the insurance fraud literature, for example, Rallapalli et al. (1994) established a modest statistical linkage between a group of consumer scenarios labeled “illegal” and rationalization (no harm–no foul), suggesting mediated ethical concerns. Brinkmann (2005) and Tennyson (2008) point to internal processes of
rationalization and neutralization in offering explanations for CIFA. And the CAIF projects utilized the use of these mechanisms in the successful classification of consumer-CIFA segments. However, not all of these studies clearly distinguish social norms from internal ethical standards, a potential limitation of the analyses of Tennyson (2008) and the empirical work of Brinkmann and Lentz (2006). These hypotheses apply:

H4: Higher ethical standards are associated with lower acceptance of CIFA.

H5: Higher ethical standards are associated with lower levels of rationalization.

**Social Norms and Rationalization.** The CAIF survey projects (Coalition Against Insurance Fraud, 1997, 2007) as well as Brinkmann and Lentz (2006) were successful in clustering respondents on the basis of their statements regarding attitudes toward CIFA (these included both normative statements and rationales—internal mechanisms). So-called “conformists” tend to realize the common-place nature of CIFA, while “realists” are tolerant of CIFA owing to the use of rationalizations. Those in the “moralist” cluster were least tolerant/most rigid in application of ethical norms, while “critics” were most accepting of CIFA, attributing blame to insurers themselves. These findings were not inconsistent with the groupings of Dean (2004) regarding the acceptability of padding/exaggeration of claims. Tennyson (2002) has also found links between acceptance of CIFA and attitudes toward industry.

Additional appeal to the relationship between social norms and rationalizations is derived from Bandura’s (above) recognition of the influence of the public nature of discourse on social norms and the self. Rationalizations afford a mediating function that may differ dramatically from one person to the next. The choice of appropriate rationalizations may be influenced by public institutions (e.g., media agenda setting, government policy) that vary from time to time and by location.

We posit that the initiation of rationalizations emanates from both the imbalance created by dissonance, arising from conflict generated by an ethical dilemma (above), and the descriptive (public) norm. In the case of strong descriptive norms, the need for any rationalization to restore balance is mitigated. Weaker descriptive norms favor the initiation of rationalizing behavior as the most efficient route to balance, particularly if the environment provides associated cues (e.g., agenda setting through media coverage). Unethical climates provoke unethical behaviors due to their ability to influence behavior and the individuals’ motivation by social norms, even if these norms would be inconsistent with ethical norms in other contexts. Of course, individuals will naturally feel the dissonance or
tension associated with acting in a way that, although consistent with social norms, is inconsistent with their fundamental moral code. Therefore, individuals in this situation then have reason or motivation to rationalize these behaviors as ethical in an effort to resolve this dissonance (Festinger, 1957).

H6: Higher perceived prevalence of CIFA (descriptive norm) is negatively related to rationalization.

H7: Higher levels of rationalization are positively related to acceptance of CIFA.

Concern. The concept of concern affords a measure of engagement or arousal. More inequitable relationships evoke greater concern, or are more involving. The more routine service relationships are expected to be less personally relevant, involve less risk, and be less symbolic; these are features of low involvement products/contexts of consumption (e.g., Laurent and Kapferer, 1985). Not all inequities, after all, become problematic, and many may not rise to the level of liminal recognition. The level of concern may be affected by contextual cues and, at an extreme, may manifest in heightened emotional and/or physiological response (e.g., Gino and Pierce, 2009). Rationalization may in fact moderate to reduce levels of arousal, frustration, and/or anxieties, thus buffering insult to the “self.”

Societal Governance. The literature has shown that perceptions of fairness can have a dramatic influence on people’s behavior and beliefs (e.g. Gino and Pierce, 2009; Babin, Griffin, and Boles, 2004). In the presence of a deemed inequitable relationship, ethics come into play. Ethical relationships have been postulated to include “justice as fairness” as a primal component in post-modern society (McGregor 2006). But this linkage has not received much empirical attention. DeConinck (2004, 2010) was able to provide support for the environmental influence on individual perceptions of what is and what is not ethical. Further evidence from Gino and Pierce (2009) found that people are willing to engage in dishonest behavior in an effort to restore equity, and to help others. This study also demonstrated that people discount how wrong engaging in these actions is. This implies that restoring equity is more important than maintaining a strict moral code. Hastings and Finegan (2010) found (in an organizational study) a complex set of interactions surrounding one’s ethical standard (idealist v. relativist) and conditions of varied procedural justice. They note, however, that persons more dependent upon a relativistic posture may be more likely to engage in deviant behavior and those with more idealistic perspectives are less likely to do so. However, recognizing the malleability (cf. Mazar, Amir, and Ariely, 2008) of one’s ethics allows one to rationalize and engage in behaviors they otherwise would not, as rationalization enables
them to rest on the notion that their otherwise dishonest or unethical behavior is actually the right thing to do.

Thus, the preferences one may have for the societal management of alleged infractions and/or offenders may be expected to differ depending upon one’s acceptance of CIFA, the latter reflecting the composite of factors in the system. Societal treatment options may vary from the least punitive to those more progressive. Philosophically, several schools of thought exist with respect to the justification(s) and nature of societal treatment strategies (e.g., Von Hirsch, 1992), although the just deserts theory and deterrence are well established (e.g., Bilz and Darley, 2004). Following Carlsmith, Darley, and Robinson (2002), “just deserts” is concerned with the allocation of punishment in relation/proportion to the harm, “righting” a wrong; in the case of deterrence, one is concerned with the measure of punishment that will, in the calculus of would-be offenders, prevent the commission of the offense. These authors (not inconsistent with states’ ranking of offenses by statute) assert that persons have internal hierarchies of severity assignments for offenses, and that the punishments they would allocate vary. Societal allocation of punishment is inherently conditioned upon conceptions of equity and fairness.

Fairness is an inescapable dimension of CIFA, impacting strategies for claims management and underwriting to legislative and statutory authority, agency rulemaking, and, of course, the management of prosecutorial disposition and jury validation. Societal preferences for managing CIFA are thus central to governance of insurance and insurers. These hypotheses apply:

H8: Higher levels of perceived inequities are associated with higher ethical standards.

H9: Greater levels of perceived inequities are associated with higher levels of rationalization (inversely scaled).

H10: Higher levels of perceived inequities are associated with reduced levels of concern.

H11: Higher levels of concern are inversely related with acceptance of CIFA.

H12: Higher levels of acceptance are positively associated with approval of the most liberal claims policy management.

H13: Higher levels of acceptance are inversely associated with contemporary claims policy management.

H14: Higher levels of acceptance are inversely associated with progressive levels of punishment/deterrence.
H15: Higher levels of perceived inequities are positively associated with the most liberal claims policy management.

H16: Higher levels of perceived inequities are negatively associated with contemporary claims policy management.

H17: Higher levels of perceived inequities are negatively associated with progressive levels of punishment/deterrence.

Controls. Control variables important to model specification include both age and gender. A number of studies of CIFA have concluded that females apply more stringent ethical standards in the assessment of CIFA (e.g., Tennyson, 2002; Dean, 2004; Lesch, 2010). Some evidence supports an inverse relationship between age, and moral laxity, some in the area of CIFA (e.g., Muncy and Vitell, 1992; Lesch, 2010). However, recent literature reviews addressing both variables across a variety of contexts (e.g., Loe, Ferrell, and Mansfield, 2000; O’Fallon and Butterfield, 2005) suggest that the evidence relating either age or gender with ethical tendencies is mixed. Their inclusion here is based on the available studies in the context of CIFA, and we have specified their valences to be negative (i.e., lower acceptance of CIFA with aging; and males will be more accepting of CIFA (negative)).

METHODS AND RESULTS

Research Setting, Sample, and Data Collection

Secondary data from a nationwide electronic survey of adults 18+ non-affiliated with the legal, insurance, or advertising/marketing research industries were utilized. The sample included 1,169 completed instruments, and was evenly balanced between male and female respondents. Data were collected by a private research firm and limited to U.S. citizens. Oversampling (n = 164) was undertaken to ensure adequate representation from the states of California, Florida, New Jersey, New York, Pennsylvania, and Texas, with all data collected during October, 2007. Average length to completion was ten minutes. Table 1 displays sample characteristics.9

Measures

Measurement of the constructs in our structural model originated from items in the CAIF questionnaire. To our knowledge, these items were not

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9The authors express their gratitude to Mr. Dennis Jay, Coalition Against Insurance Fraud, for supplying these data.
subjected to a priori psychometric assessment or adopted from established literature where the psychometric properties (e.g., reliabilities and validities) have previously been established. Thus, special care was used to assess the face and construct validities at the construct and item level. These analyses are discussed in detail below, but first we describe the operationalization of all measures in our model as derived from the CAIF survey instrument.

**Construct Operationalizations**

*Social Norms, Fairness/Equity/Justice, and Opposition Norms/Acceptance.* A useful conception of social norms is offered by Cialdini (e.g., Cialdini and Goldstein, 2004; Cialdini et al., 1991; Cialdini et al. 2006; Kallgren, Reno, and Cialdini, 2011). According to Cialdini et al. (2006, p. 4), two types of social norms can be found: descriptive (norms of “is”) and injunctive
(norms of “ought”). Our extant data set has operationalized social norms descriptively, following the Cialdini model.

Consistent with both Nee’s (opposition) and Cialdini’s (injunctive) reasoning, we posit acceptance to be a cluster of items expressing the simple acceptability of a range of CIFA actions. All measurement items are shown in Appendix 1. Perceptions of prevalence were indexed using a Likert-type scale (1 = very uncommon; 4 = very common), and the measures of acceptance utilized ten-point scales (1 = totally unacceptable; 10 = totally acceptable). Equity/fairness measures were indexed on a five-point Likert type scale (1 = strongly disagree; 5 = strongly agree).

Personal Ethics and Rationalization. Definitions of ethics vary, but in the present study consumers provided direct evidence of their standard by replying to a two-item index of how ethical/unethical two specific insurance claimant behaviors were viewed. These are shown in Appendix 1. Ethical standard was measured using a ten-point Likert-type scale (1 = completely unethical; 10 = completely ethical). Rationalizations were nominally assessed (1 = yes, considered; 2 = no, not considered).

Rationalization. The instrument used in this study contains four measures qualifying as mechanism for rationalization, in nominal form, as shown in Appendix 1.

Concern. The extant data set limits our ability to pose a multidimensional construct. This variable, a dimension of consumer involvement, was operationalized as a single item construct in Likert form (1 = not at all concerned; 5 = extremely concerned). See Appendix 1.

Acceptance and Social Management. Social acceptance was measured as a multi-item variable in which respondents reported the acceptability of each of five fraudulent insurance claimant behaviors, as shown in Appendix 1. Social management was treated at three levels of outcome suitability, as reported by respondents. A most liberal treatment strategy was measured as a single-item response to the question of whether insurers should pay all claims upon presentation, “no questions asked.” A second-level response (also single item) represented contemporary policy in that claim payments were made only in that portion that was valid, with any other portion (invalid) denied. A multi-item variable was created to index more progressive/punitive policies toward management, including (a) investigative costs for claims including any measure of fraud to be borne by the claimant; (b) claimant prosecution for lying and purposeful falsification; (c) all claim payment(s) denied if facts on the insurance application are misrepresented; and (d) denial of future insurance coverage if there is a history of false claim presentation(s). This multi-item index expressed high internal reliability, while the two single-item variables proved statistically independent of each other and the multi-item index. See Appendix 1.
Societal Disposition. The questionnaire contained several items addressing preferred treatment of offenders/offenses. A single-item measure was used to reflect a reduced emphasis upon claim validation (pay all claims), and a single item measure indexed current policy (pay legitimate claims; deny illegitimate claims). Review of the properties of four items reflecting a more progressive climate for claims payment resulted in the construction of the scale (alpha = 0). See Appendix 1.

Results of Statistical Procedures

Structural equation modeling (SEM) was used to test the legitimacy of the hypothesized relationships proposed in the fairness/ethical model (Figure 1). SEM can be viewed as an extension of both multiple regression and factor analysis (Hair et al., 1998). Unlike multiple regression and other multivariate techniques, SEM allows the researcher to examine more than one relationship at a time as well as account for the measurement error that is ubiquitous in most disciplines (Hair et al., 1998; Raykov and Marcoulides, 2000). These distinctions make the SEM methodology ideal for testing the fairness/ethical model proposed in this study. The fairness/ethical model proposes several dependence relationships, and in some instances, the dependent variable in one proposed relationship becomes the independent variable in a subsequent relationship (e.g., rationalization). Unlike multiple regression, SEM is well equipped to evaluate all of these relationships simultaneously (Hair et al., 1998; Raykov and Marcoulides, 2000).

SEM, as a statistical methodology, has been used across a number of disciplines. Education, Marketing, Biology, Organizational Behavior, Health, Management, and Insurance have all employed this method in their attempts to gain a better, more holistic view of phenomena, issues, and problems (Celuch, Taylor, and Goodwin, 2004; Hair et al., 1998; Raykov and Marcoulides, 2000; Taylor, Celuch, and Goodwin, 2002).

Prior to an analysis of the proposed structural model, it is important to first consider the reliability and validity of the items used to measure each construct (Hair et al., 1998). This process is often referred to as a confirmatory factor analysis (CFA) or assessment of the measurement model. This process involves the assessment of the overall measurement model as well as checking individual item loadings to ensure an adequate relationship with their related constructs as well as little to no relationship with constructs not believed to be related to that item.

When evaluating the overall fit of both the measurement and structural model, the researcher relies on several fit indices to determine the degree of correspondence between the predicted model and the observed model. The fit indices used during our CFA routine were the chi square ($\chi^2$), comparative fit index (CFI), normed fit index (NFI), non-normed fit index (NNFI),
the root mean square residual (RMR), and root means square error of approximation (RMSEA). The results of our CFA reveal an adequate fit. The \( \chi^2 \) (df = 358) = 9211.81 (p > 0.05). This figure indicates a significant difference between the observed and proposed model. However, the chi-square statistic is extremely sensitive to large sample sizes. As sample size increases, the chi-square statistic becomes more likely to indicate significant differences between equivalent models (Hair et al. 1998). Since our study has a large sample size (N = 1,169), this significant Chi-square statistic is not unexpected, nor does it negate our assertion of an adequately fitting measurement model, assuming other fit indices can support this assertion.

The CFI represents a comparison between the estimated model and null model. Larger values indicate a better fit. Our model produced a CFI of 0.94, which is close to the rigorous 0.95 figure proposed by Hu and Bentler (1998). The NFI is a comparison of the proposed model and the null model. Although there is no absolute value indicating an acceptable level of fit, a value of 0.90 or greater is generally recommended (Hair et al., 1998). The NFI of our measurement model is also 0.94. The NNFI is a variant of the NFI that takes into account the degrees of freedom of the proposed model (Raykov and Marcoulides, 2000). The NNFI for our measurement model is 0.93, which rests in between the 0.90 figure proposed by Bentler and Bonnet (1980) for an acceptable model and Hu and Bentler’s (1998) 0.95 figure for a good fitting model. Based on these figures we suggest that our 0.93 NNFI figure supports our proposition of an adequate fitting model.

The RMR is the square root of the average of the residuals between the observed and estimated input matrices (Hair et al., 1998). Our measurement model produced an RMR of 0.03. Unlike the previous fit indices, the closer to zero the RMR figure, the better the fit. The 0.03 figure thus represents an adequate to good fitting model. Finally, the RMSEA attempts to correct for the tendency of the Chi-square statistic to reject any specified model with a sufficiently large sample. It is the discrepancy per degree of freedom, like the RMR; the difference is that discrepancy is measured in terms of the population, not just the sample used for estimation (Hair et al., 1998). The value is representative of the goodness-of-fit that could be expected if the model were estimated in the population, not just the sample drawn for the estimation (Hair et al., 1998). Values ranging from 0.05 to 0.08 are considered acceptable, while less than 0.05 are considered indicative of good or close fit (Browne and Cudeck, 1993; Hu and Bentler, 1998). The RMSEA for our measurement model is 0.05, which is good to acceptable in fit.

After establishing the adequacy of the measurement model, attention is placed on determining the adequacy and appropriateness of each item used in this study. This means determining the validity of each construct.
analyzed in our study. Construct validity can be ascertained by first determining the convergent validity and then the discriminant validity of each construct. Convergent validity is an assessment of the degree to which each item measuring a specific construct is related to other items measuring the same construct (Trochim, 2001). Reliability, or the repeatability or consistency (Trochim, 2001) of a measure, is one assessment of convergent validity. The composite reliability, as reported in Appendix 1, is thus an assessment of how well a set of items will consistently provide the same results, assuming the construct of interest isn’t changing (Trochim, 2001). As can be seen in Appendix 1, all of the composite reliability scores of multi-item scales\textsuperscript{10} range between 0.84 and 0.96, which is well above the 0.70 threshold. These composite reliability figures suggest that the group of items employed to measure each construct are indeed reliable items (scales).

Another measure of convergent validity is the extent to which items load significantly on their posited underlying construct (Anderson and Gerbing 1988). This means determining if the item loadings, or correlations between the item and the construct it is believed to measure, are significant or more specifically, greater than twice its standard error (Anderson and Gerbing 1988). As can be seen in Appendix 1, the t-scores associated with each item loading are all well above the 1.96 threshold commonly used to indicate significance at the p < 0.05 level. These data provide evidence that the item loadings (displayed as standardized loadings in Appendix 1) converge on their posited construct.

Finally, in conjunction with the above measures of reliability and item loading significance, convergent validity can also be ascertained by evaluating the average variance extracted (AVE) for each construct (Fornell and Larcker, 1981). The AVE is a statistic that states how much variance captured by a latent variable is shared among other variables. If an individual construct captures less than 0.50 of the variance extracted, then the convergent validity of that particular construct is in question (Fornell and Larcker, 1981). If, however, more than 0.50 of the variance extracted can be accounted for by each construct, then the majority of the variance is captured by the items being used to measure the construct and not by measurement error. As can be ascertained from Appendix 1, all multi-item constructs (scales) have an AVE greater than 0.50.

\textsuperscript{10}Only the multi-item scales were subject to reliability and validity assessment, as it is impossible to estimate these scores with a single item. Though we recognize this as a limitation in our research methodology, the single items are still able to measure the underlying construct being reported; but the reader should interpret the results with caution, as the reliability and validity of the measures have not been determined. We feel the novelty and contribution of this research warrants the inclusion of the single-item measures into the structural model.
These results, taken together, provide evidence that convergent validity is well supported. Discriminant validity, or the extent to which items that are not supposed to be related are actually unrelated, also contributes to the notion of construct validity (Trochim, 2001). Discriminant validity is established when the AVE for all constructs exceeds the square of the correlations between each construct (Fornell and Larcker, 1981). We list the descriptive statistics and correlations in Table 2 and the AVE figures in Appendix 1. The reader will note that the AVE for each construct is larger than the square of any correlation listed in Table 2, which supports our establishment of discriminant validity (Fornell and Larcker, 1981).

After establishing the adequacy of the measurement model, the convergent and discriminant validity of the constructs within the model, the researcher is then able to assess the overall fit and path coefficients of the structural model. The fit of the structural model is assessed by evaluating the same fit indices as the measurement model. The structural model tested in our study shows an acceptable fit with the Chi-square (\(\chi^2\)) (362) = 12066.02 (p > .05), CFI = 0.93, NFI = 0.93, NNFI = 0.91, RMR = 0.06, and RMSEA = 0.05. The structural path coefficients, predicted direction of effect, and t-values are listed in Table 3. The path coefficients listed in Table 3 have been standardized and thus can be interpreted in much the same way one would interpret standardized beta weights in multiple regression (Hair et al., 1998). That is to say, standardized coefficients near zero have little importance in the relationship, while larger values have a more profound effect (Hair et al. 1998). Due to varying scales across constructs, reporting the standardized coefficients makes the comparison between constructs easier to interpret, as the scale effect present with unstandardized coefficients isn’t present (Hair et al., 1998).

As the numerical value of the standardized path coefficient represents the magnitude of the relationship between constructs, the sign of the coefficients represents the direction of the relationship. As described in the derivation of the hypotheses tested in this paper, some constructs are believed to be positively related or move in a similar direction, while other relationships are believed to be negative. A negative relationship indicates that the greater the positive magnitude of one construct, the more negative the magnitude of the related construct. Table 3 indicates the direction of these hypothesized relationships in the predicted direction of effect column.

Finally, similar to the CFA analysis, the t-values are presented as an indication of the significance of the estimated standardized path coefficient. Typically, t-values greater than 1.96 or 2.58 are generally indicative of statistically significant path coefficients at the p < 0.05 and p < 0.01 levels, respectively (McClave, Benson, and Sincich, 2005). The t-value is important
<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Descriptive norms</td>
<td>2.97</td>
<td>0.63</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Perceptions of equity</td>
<td>3.39</td>
<td>0.92</td>
<td>0.21**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Ethical standards</td>
<td>2.00</td>
<td>1.84</td>
<td>−0.01</td>
<td>0.14**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Rationalization</td>
<td>1.45</td>
<td>0.39</td>
<td>−0.07</td>
<td>−0.21**</td>
<td>−0.26**</td>
<td>1.00</td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5. Concern</td>
<td>3.48</td>
<td>0.97</td>
<td>0.20**</td>
<td>−0.11**</td>
<td>−0.14**</td>
<td>0.12**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Acceptance</td>
<td>2.08</td>
<td>1.69</td>
<td>0.04</td>
<td>0.22**</td>
<td>0.62**</td>
<td>−0.30**</td>
<td>−0.25**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Liberal claims management</td>
<td>3.08</td>
<td>2.45</td>
<td>−0.01</td>
<td>0.22**</td>
<td>0.33**</td>
<td>−0.17**</td>
<td>−0.08**</td>
<td>0.33**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Contemporary claims management</td>
<td>7.20</td>
<td>2.55</td>
<td>−0.04*</td>
<td>−0.01</td>
<td>−0.06*</td>
<td>0.00</td>
<td>−0.02</td>
<td>−0.10**</td>
<td>−0.03</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Progressive deterrence</td>
<td>6.50</td>
<td>2.08</td>
<td>0.07*</td>
<td>−0.25**</td>
<td>−0.11**</td>
<td>0.11</td>
<td>0.32**</td>
<td>−0.30**</td>
<td>−0.08**</td>
<td>0.22**</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Age</td>
<td>4.45</td>
<td>1.43</td>
<td>−0.04</td>
<td>−0.07*</td>
<td>−0.24**</td>
<td>0.21**</td>
<td>0.14**</td>
<td>−0.27**</td>
<td>−0.14**</td>
<td>0.10**</td>
<td>0.10**</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>11. Gender</td>
<td>1.51</td>
<td>0.50</td>
<td>0.05</td>
<td>−0.06</td>
<td>−0.10**</td>
<td>0.02</td>
<td>0.01</td>
<td>−0.09**</td>
<td>−0.12**</td>
<td>0.03</td>
<td>0.03</td>
<td>−0.14**</td>
<td>1.00</td>
</tr>
</tbody>
</table>

* p < .05 (two-tailed t-test)
** p < .01 (two-tailed t-test)

Notes: N = 1031
because it provides an indication of the significance of the hypothesized relationship. If the t-value fails to reach these critical values, then the researcher can conclude that the hypothesized independent variable is not a significant predictor of the dependent variable. However, if the t-value does meet or exceed these values, the researcher can conclude that the magnitude of the relationship between constructs, as indicated by the size of the path coefficient, is statistically significant. It is this significance test that provides support for or disconfirms the hypotheses being tested in the study.

As the t-value is an indication of the significance of the hypothesized relationship, it will reflect the same sign of the estimated path coefficient between constructs. For instance, if the estimated path coefficient is negative, then the corresponding t-value will also be negative. This indicates whether the positive or negative relationship between constructs is a significant one. Our estimated path coefficients, the directionality of these coefficients, t-values, and the substantive conclusions drawn from these estimates are presented in Table 3.

As can be seen in Table 3, the results of our study support 15 of our 17 proposed hypotheses. Specifically, we found that descriptive norms are positively related to an individual’s perceptions of equity (H1; $\beta = 0.22, p < 0.01$) as well their acceptance of insurance fraud ($\beta = 0.08, p < 0.01$), which is consistent with H2. Surprisingly, however, descriptive norms are not significantly related to consumer tendencies to rationalize unethical behaviors (H6; $\beta = -0.01, p > 0.05$). These findings suggest that descriptive norms play a smaller part in an individual’s decision-making process than originally postulated in this paper. However, an individual’s perceptions of the fairness of the environment were found to play a significant role in individuals’ attitudes and behaviors toward questionable (i.e., unethical) consumer practices. Specifically, the perception of equity was found to relate significantly to an individual’s own ethical standards (H8; $\beta = 0.18, p < 0.01$) and their tendency to rationalize or justify otherwise unethical behavior (H9; $\beta = -0.25, p < 0.01$) as well as influence an individual’s level of concern about these otherwise unethical behaviors (H10; $\beta = -0.12, p < 0.01$). These results, when taken together, suggest that individuals evaluate the fairness of the environment prior to establishing interpersonal beliefs and attitudes about the relationship, further supporting the notion of the malleability of one’s personal beliefs, including one’s own personal ethic. Consistent with these results is our finding that supports the relationship between the evaluation of the ethicality of the environment and one’s tendency to accept insurance fraud (H3; $\beta = 0.13, p < 0.01$).
Table 3. Summary of Findings: Structural Model Assessment

<table>
<thead>
<tr>
<th>Structural paths</th>
<th>Predicted direction of effect</th>
<th>β</th>
<th>t-values</th>
<th>Hypothesis</th>
<th>Summary of findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Descriptive norms → Equity perceptions</td>
<td>+</td>
<td>0.22</td>
<td>18.61</td>
<td>H1</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Descriptive norms → Acceptance</td>
<td>+</td>
<td>0.08</td>
<td>8.11</td>
<td>H2</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Equity perceptions → Acceptance</td>
<td>+</td>
<td>0.13</td>
<td>13.66</td>
<td>H3</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Ethical disposition → Acceptance</td>
<td>+</td>
<td>0.51</td>
<td>73.97</td>
<td>H4</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Ethical disposition → Rationalization</td>
<td>−</td>
<td>−0.21</td>
<td>−21.19</td>
<td>H5</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Descriptive norms → Rationalization</td>
<td>−</td>
<td>−0.01</td>
<td>−1.27</td>
<td>H6</td>
<td>Hypothesis not supported</td>
</tr>
<tr>
<td>Rationalize → Acceptance</td>
<td>−</td>
<td>−0.11</td>
<td>−11.51</td>
<td>H7</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Equity perceptions → Ethical disposition</td>
<td>+</td>
<td>0.18</td>
<td>19.27</td>
<td>H8</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Equity perceptions → Rationalization</td>
<td>−</td>
<td>−0.25</td>
<td>−20.65</td>
<td>H9</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Equity perceptions → Concern</td>
<td>−</td>
<td>−0.12</td>
<td>−13.11</td>
<td>H10</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Concern → Acceptance</td>
<td>−</td>
<td>−0.16</td>
<td>21.30</td>
<td>H11</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Acceptance → Liberal claims management</td>
<td>+</td>
<td>0.29</td>
<td>30.27</td>
<td>H12</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Acceptance → Contemporary claims management</td>
<td>−</td>
<td>−0.09</td>
<td>−8.37</td>
<td>H13</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Acceptance → Progressive punishment</td>
<td>−</td>
<td>−0.18</td>
<td>−16.95</td>
<td>H14</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Equity perceptions → Liberal claims management</td>
<td>+</td>
<td>0.13</td>
<td>12.80</td>
<td>H15</td>
<td>Hypothesis supported</td>
</tr>
<tr>
<td>Equity perceptions → Contemporary claims management</td>
<td>−</td>
<td>−0.02</td>
<td>−1.65</td>
<td>H16</td>
<td>Hypothesis not supported</td>
</tr>
<tr>
<td>Equity perceptions → Progressive punishment</td>
<td>−</td>
<td>−0.20</td>
<td>−17.64</td>
<td>H17</td>
<td>Hypothesis supported</td>
</tr>
</tbody>
</table>

Control variables
- Age → Acceptance                           | N/A                           | −0.12   | −2.20    | N/A        | N/A                         |
- Gender → Acceptance                         | N/A                           | −0.05   | −3.19    | N/A        | N/A                         |

Note: β represents standardized path coefficient.
These results also suggest that after one’s personal ethic in the insurance exchange context is established, that ethic has an influence on an individual’s tendency to rationalize otherwise unethical behaviors (H5; $\beta = -0.21, p < 0.01$) and accept insurance fraud (H4; $\beta = 0.51, p < 0.01$).

Not unexpectedly (especially in view of the results reported thus far), these data support a significant relationship between an individual’s tendency to rationalize their behaviors and their willingness to accept fraudulent behavior; or, stated conversely, individuals who refuse to rationalize behaviors also refuse to accept insurance fraud (H7; $\beta = -0.11, p < 0.01$). Also not unexpected is the empirically significant relationship between the concern someone has for fraudulent behavior and their acceptance of it. Our results suggest that the more someone is concerned about these behaviors the less accepting of fraudulent behavior they are (H11; $\beta = -0.16, p < 0.01$).

The relationships between and among the societal and personal factors, behaviors, and consumer beliefs about certain forms of policy or governance were of central interest to the study. These findings establish a relationship between the acceptance of insurance fraud and liberal claims management (H12; $\beta = 0.29, p < 0.01$). Also significant were inverse relationships between contemporary claims management (H13; $\beta = -0.09, p < 0.01$), progressive levels of deterrence (H14; $\beta = -0.18, p < 0.01$), and the acceptance of insurance fraud. To the latter, higher levels of acceptance of CIFA result in lower levels of support for existing or more progressive policies in treatment of claims and claimants involved in CIFA-like behaviors.

Significant paths were established between perceptions of the equity of the environment and the acceptance of liberal claims polices (H15; $\beta = 0.13, p < 0.01$). The posited inverse relationship between contemporary claims management (H16; $\beta = -0.02, p > 0.05$) was not supported here. However, the data do suggest a relationship between equity perceptions and progressive punishment (H17; $\beta = -0.20, p < 0.01$). These relationships provide evidence that the more someone believes the current insurance climate to be equitable, the more likely they are to believe current forms of claims management and punishment for insurance fraud to be appropriate. However, the less individuals express beliefs that the status quo is fair, the less likely they are to endorse current forms of claims management and punishment for insurance fraud.

**DISCUSSION**

The goal of this study was to provide a framework by which to better assess and understand the climate in which insurance fraud and abuse
occurs, identifying the social and intrapersonal factors that contribute to a market relationship that is decidedly inefficient, if not, by definition, dysfunctional. While not without limitations, the results contribute to our understanding of CIFA and organizational policies in the following ways.

Capturing Complexity

Our model was predicated on literatures of several disciplines interested in mechanisms antecedent to dishonesty. Previous studies had, in more atomistic fashion, established the value of social norms, personal ethical standards, and rationalization as contributing to acceptance of CIFA. Our study empirically confirmed the conceptual value of these factors and demonstrated their relationships within a larger, multivariate model. Moreover, we firmly establish the contributions of fairness/equity, originating within the larger theoretical body of social exchange and social justice, a direct response to previous inferences within the literature on CIFA (e.g., Tennyson, 2002; Tennyson, 2008; Miyazaki, 2009). Our findings, contrary to preliminary efforts by Tennyson (1997) and Dean (2004), clearly establish the multivariate influences of fairness/equity, including both direct and indirect effects on CIFA, and its governance within the insurer.

Fig. 2. Ethical/fairness results.
and regulatory domains. This construct was shown to impact personal ethical standards, the use of rationalization(s), and level of concern, paths previously suggested conceptually, but limited empirically. Equity directly impacts the level of acceptance of CIFA, and was separately shown to influence societal preference for the treatment of claims and societal policy toward the management of CIFA. Moreover, these effects were not limited to an organizational setting (e.g., Murphy and Dacin, 2011) but rather reflect society at large.

The inverse relationship between perceptions of equity and social governance can be explained through the theoretical tenets of equity and justice (above). Separately from one's acceptance of CIFA, individuals who perceive an unjust marketplace are less likely to be concerned about others behaving in ways typically deemed unethical. This is due to the importance of maintaining an equitable exchange relationship. If the industry acts in ways deemed unfair or inequitable throughout the market, then unethical behaviors on the part of those affected are likely to be perceived as justified as they (actors) are only attempting rebalance the equity equation. Therefore, not only are individuals in the market not going to be concerned about these behaviors, but they may even support them. The latter relationship is, of course, supported by the strength of the path (separate) between equity and the acceptance of CIFA.

The value of normative influences was reinforced in the findings of this study. Descriptive norms were empirically linked with conceptions of equity, rationalization(s), and the construct of CIFA. In our context, measures of descriptive normative influence were empirically distinguished from both personal ethical standards and CIFA, the latter postulated to be proxies for both opposition norms and injunctive norms. Previous researchers did not disentangle these conceptual constructs empirically (e.g., Brinkmann and Lentz, 2006; Tennyson, 2002; Coalition Against Insurance Fraud, 1997, 2007), and the current study established their discriminant validity and assessed their separate roles in an overall, multivariate model. This model included a separate, but empirically established role for the concept of an opposition norm, grounded conceptually in work by Cialdini and Nee (above).

**The Climate for CIFA and Governance**

Finally, the model captures what may be deemed societal preferences for the treatment of CIFA, establishing direct and significant paths between the levels of acceptance of the former, and one’s dispositions for its management by organizations. Overall, these data suggest that individuals’ beliefs about CIFA predispose them to treatment of claims and claimants. This constitutes an important element in the climate for the management
of CIFA by industry and its regulators, and explains perhaps in part the reluctance of legislators, jurists, juries, and the public at large to support progressive penalties for alleged infractions. These data empirically establish the value of a macro-level perspective on the management of more granular activities of the industry, and offer support for the model offered by Lesch and Brinkmann (2011) reflecting the *co-creation* of CIFA, over the notion of its origins solely in consumer motive. The pressing regulatory questions include how to identify problematic behaviors contributing to consumer retaliation, their tracking, and regulatory remediation within today’s varied statutory environs.

The most immediate three parties to this equation are, of course, consumer/claimants, industry, and regulators. These data suggest that regulators and industry must redouble their efforts to address the sources of mistrust and inequity or this problem will persist. It has normative, if not durable, components. Obviously, what is “*fair*” has not been uniformly received as such, and this should trigger policy reviews by industry and new oversight by regulators.

To the extent that industry—or consumers—engage in bad-faith behaviors, both parties suffer, and the prophecy of pre-emptive deception becomes self-fulfilling. Additional research on bad-faith behaviors and ethical lapses extant within and across insurance organizations warrant careful scrutiny, since these may be antecedent to the formation of contextual personal ethical standards, the formation of opposition norms, and the reluctance for punitive countermeasures. Ignoring these findings only further imperils functional market relationship development and will likely contribute to the maintenance of the contemporary CIFA climate and full range of retaliatory behaviors, not all of which were scrutinized in this study. This would, of course, perpetuate unwarranted and costly regulatory/judicial interventions and resulting considerable social dismay.

Considered otherwise a matter of legitimate and necessary oversight, regulators cannot satisfy their obligations to both the industry and society *without* addressing the full range of CIFA precursors. These data are powerful support for the analysis of insurer-consumer interactions throughout the life of the contractual relationship, since the climate for interaction clearly indicates that societal predispositions to acceptance of CIFA increase in reaction to insurer treatment. Our data tapped but a few points of interaction between the parties (e.g., application, claimant practices), but these serve to illustrate the localities of discretionary retaliation by consumers. Insurers encounter consumers at multiple touch-points, over time, and this framework of interaction has itself been recommended by industry observers interested in higher service quality.
Scrutiny of regulatory practice has routinely revealed gaps between the proscribed role(s) of regulators and the public interest. These data suggest a new, investigative role informed by continuous and pro-active monitoring of consumer satisfaction as necessary to the reduction of what has become an accepted social response to inequitable treatment. The regulatory practice of “mail-bagging” is insufficient for this purpose, addressing only the most vocal of consumer voices. The purpose of proactive monitoring is to plumb that which “lies beneath,” and to address it before it gives rise to conflict. Moreover, market conduct studies assessing only closed claim files, or descriptive statistics on the speed of their closure, do not address the quality of the preceding interaction, nor do they address extant, negative experiences. A possible starting point offering a direct analogy to the claims context may be found in the measurement strategy used to assess patient perceptions of hospital service quality (U.S. Department of Health and Human Services, 2012). Questions indexing features of service common to in-patient stay are employed to assess quality of care, across servicing hospitals and made publicly available. The Hospital Assessment of Consumer Healthcare Providers and Systems was initially conceived in 2002, and as of 2012, metric results are to be taken into account in the disbursement of incentive funds to healthcare providers (Centers for Medicare and Medicaid Services, 2012).

Most importantly, the formation of appropriate expectations about this credence good cannot be formed in valid manner without greater provision of information by regulators and insurers alike. Existing studies bluntly describe the failure of the regulatory system to afford the bases for establishing legitimate expectations for service delivery and, concomitantly, service quality. Not knowing what they have purchased, not knowing what to expect in word or deed, and having no bases other than the occasional (and likely heterogeneous) claims experience with which to fill these knowledge gaps, consumers may have justified their treatment of insurers in ways this study illustrates. Regulators have a role to play in correcting this situation, one which promises not only greater consumer satisfaction over time, but, as a result, a more efficient marketplace marked by lower judicial and quasi-judicial costs.

Future research should further elaborate, both conceptually and empirically, the dimensions of our constructs, and should contemplate panel studies at the level of insurer-customer/claimant interaction. While the face validity of our measures was adequate (soundly reinforced through assessment of convergent and discriminant validation procedures), additional procedures undertaken in these directions will further substantiate the value and inter-relationships of the constructs specified in our IFA model.
The process aspects of interaction between the parties to these transactions could not be studied in this design, however. To those ends, these data should motivate industry, regulators, and consumer groups to renew their efforts at understanding the point of view of each with each other in the satisfaction of the promises of insurance. The notion of CIFA should be re-cast to reflect greater domain validity including these findings, and studied in ways that capture granular contributions to consumers’ perceived inequities and what has become an established norm for societally dysfunctional behaviors.

REFERENCES

Berardinelli, D (2008) From Good Hands to Boxing Gloves: The Dark Side of Insurance, Portland, OR: Trial Guides, LLC.


Murphy, P and TM Dacin (2011) Psychological Pathways to Fraud: Understanding and Preventing Fraud in Organizations, *Journal of Business Ethics*, available at www.springerlink.com/content/m628004084j76202/.


### Appendix 1. Psychometric Assessment Measures

<table>
<thead>
<tr>
<th>Latent Variable</th>
<th>Item</th>
<th>Standardized loading</th>
<th>t-stat</th>
<th>Composite reliability</th>
<th>Average variance extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Descriptive norm</td>
<td>Across the entire U.S. population, how common or uncommon do you believe each of these behaviors is?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4 pt scale anchored at 1 = very uncommon and 4 = very common</td>
<td>0.75</td>
<td></td>
<td>*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Misrepresenting facts on an insurance application in order to obtain insurance or obtain a lower rate</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Submitting an insurance claim for damages that occurred prior to the accident being covered</td>
<td>0.74</td>
<td>142.80</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inflating an insurance claim to help cover the deductible</td>
<td>0.74</td>
<td>141.20</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Misrepresenting the nature of an incident to obtain insurance payment for a loss not covered by the policy</td>
<td>0.83</td>
<td>140.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Falsifying receipts or estimates to increase the amount of an insurance settlement</td>
<td>0.80</td>
<td>180.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perceptions of equity (fairness)</td>
<td>Below are several reasons that some give for performing the previous behaviors. To what extent do you agree or disagree with each?</td>
<td>0.88</td>
<td></td>
<td>0.57</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5 pt scale anchored at 1 = strongly agree and 5 = strongly disagree</td>
<td>0.52</td>
<td></td>
<td>*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Companies make too much money at the consumer’s expense</td>
<td>0.88</td>
<td>49.66</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>People are only looking to get a fair return on all the premiums they’ve paid</td>
<td>0.75</td>
<td>56.75</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Table continues*
Appendix 1. Continued

<table>
<thead>
<tr>
<th>Latent Variable</th>
<th>Item</th>
<th>Standardized loading</th>
<th>t-stat</th>
<th>Composite reliability</th>
<th>Average variance extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>If insurance companies treated people with more respect, people wouldn't lie to them as much</td>
<td>0.80</td>
<td>51.83</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurance premiums continue to increase regardless of one's claims history</td>
<td>0.50</td>
<td>43.24</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>People are forced into this behavior because it's the only way to get the insurance coverage they are owed</td>
<td>0.97</td>
<td>40.75</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Ethical standards**

For each of the following, please indicate how ethical or unethical you believe each behavior to be.

10 pt scale anchored at 1 = completely unethical and 10 = completely ethical

<table>
<thead>
<tr>
<th></th>
<th>Standardized loading</th>
<th>t-stat</th>
<th>Composite reliability</th>
<th>Average variance extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submitting an insurance claim for more than the amount of damages</td>
<td>0.97</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Misrepresenting the nature of an incident to obtain insurance payment for a loss not covered by the policy</td>
<td>0.94</td>
<td>271.20</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Rationalization**

In deciding how ethical or unethical these behaviors are, do you consider:

1 = yes, 2 = no

<table>
<thead>
<tr>
<th></th>
<th>Standardized loading</th>
<th>t-stat</th>
<th>Composite reliability</th>
<th>Average variance extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>The dollar amount involved</td>
<td>0.81</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If anyone is damaged by the action</td>
<td>0.71</td>
<td>41.96</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How common the practice is</td>
<td>0.78</td>
<td>34.91</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether there are extenuating circumstances or special reasons that explain the behavior</td>
<td>0.93</td>
<td>60.86</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Concern

5 pt scale anchored at 1 = not at all concerned and 5 = extremely concerned

How concerned are you personally about the degree to which these behaviors are currently occurring? N/A N/A

Acceptance

How acceptable or unacceptable to you are the following behaviors?

10 pt scale anchored at 1 = totally unacceptable and 10 = totally acceptable

<table>
<thead>
<tr>
<th>Behavior</th>
<th>Acceptance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misrepresenting facts on an insurance application in order to obtain insurance or obtain a lower rate</td>
<td>0.90 *</td>
</tr>
<tr>
<td>Submitting an insurance claim for damages that occurred prior to the accident being covered</td>
<td>0.91 33.26</td>
</tr>
<tr>
<td>Inflating an insurance claim to help cover the deductible</td>
<td>0.85 39.02</td>
</tr>
<tr>
<td>Misrepresenting the nature of an incident to obtain insurance payment for a loss not covered by the policy</td>
<td>0.93 35.79</td>
</tr>
<tr>
<td>Falsifying receipts or estimates to increase the amount of an insurance settlement</td>
<td>0.92 34.26</td>
</tr>
</tbody>
</table>

Liberal claims policy

The following are some possible consequences that could occur to people who perform these behaviors. Please tell me how suitable or unsuitable you think the consequence is.

Claims are processed with no questions asked 0.99 N/A

Contempoary claims policy

The following are some possible consequences that could occur to people who perform these behaviors. Please tell me how suitable or unsuitable you think the consequence is.

Any portion of a claim that is unjustified is denied but the remainder of the claim is paid 0.99 N/A

Table continues
Appendix 1. *Continued*

<table>
<thead>
<tr>
<th>Latent Variable</th>
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<th>Standardized loading</th>
<th>t-stat</th>
<th>Composite reliability</th>
<th>Average variance extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progressive claims policy</td>
<td>The following are some possible consequences that could occur to people who perform these behaviors.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>For each, please tell me how suitable or unsuitable you think the consequence is.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>All claim payments are denied if facts on insurance application are misrepresented</td>
<td>0.69</td>
<td></td>
<td>*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>If a consumer claim is found to be unjustified in part or in whole, the consumer pays the costs associated with insurance company investigations</td>
<td>0.76</td>
<td>38.99</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The consumer is prosecuted for lying and purposefully falsifying information</td>
<td>0.94</td>
<td>40.99</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The consumer is denied insurance coverage in future if they have been found to submit false claims in past</td>
<td>0.65</td>
<td>73.28</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Value set to 1.

**Correlation coefficient.