

## EXAMINING MONEY LAUNDERING IN THE INSURANCE INDUSTRY THROUGH FRAUD HEPTAGON THEORY PERSPECTIVE



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### Abstract

Based on the principle of insurable interest, individuals and organizations enter into insurance agreements with the primary objective of securing protection against potential financial losses caused by unforeseen risks. However, according to various literature, insurance can also be utilized as a financial instrument for money laundering activities. This study aims to uncover potential indicators that may serve as opportunities for money laundering, analyzed through the lens of the Fraud Heptagon Theory, which includes the aspects of pressure, opportunity, rationalization, competence, arrogance, culture, and religion. This research employs a qualitative methodology with an interview approach, targeting individuals working within the insurance industry, such as insurance companies (internal auditors, insurance agents, underwriters), insurance brokers, and reinsurance companies to gain insights into the complex trade schemes. The implementation of Anti-Money Laundering (AML) measures is crucial to minimize the potential for money laundering and to ensure compliance with existing regulations.

**Keywords:** Money Laundering, Fraud Heptagon Theory, Anti Money Laundering, Insurance Industry

## INTRODUCTION

According to a U.S.-based study by the Coalition Against Insurance Fraud, over 70% of insurers consider money laundering within the insurance industry to be "at least as great a risk as other financial services." In 2013, Prudential, a UK-based life insurance company, was fined £16.5 million (US\$24.7 million) by the UK's Financial Conduct Authority (FCA), as it failed to have adequate systems to monitor potential money laundering transactions and appropriately report suspicions of money laundering activity. By failing to properly conduct sufficient customer due diligence, as well as neglecting to report suspicious transactions in a timely and effective manner, the company violated anti-money laundering regulations (de Nichilo & Prahara, 2022). In 2015, AXA was fined €10 million for anti-money laundering violations, specifically for failure to conduct adequate customer due diligence, and for insufficient monitoring and appropriate reporting of suspicious transactions. Such incidents underlie the need for insurance firms to abide by anti-money laundering laws, including adopting controls to prevent and detect illicit finance, or face heavy penalties and reputational damage. The only other company that same year to have similar problems was the Metropolitan Life Insurance Company (MetLife) in the United States. MetLife, The Financial Industry Regulatory Authority (FINRA) fined MetLife US\$2 million for insufficient money laundering controls. The case focused on insurance agents who abused their authority to normalize illegal money through fake contracts and claims. These examples are quite telling since they highlight the susceptibility of the insurance industry to money laundering that demands both a more robust regulatory response and internal controls in place to counter such activities. For instance, in 2017, the Italian financial regulator penalised an Italian insurance company to the tune of €2 million for failing to monitor and report unusual transactions. By failing to conduct sufficient customer due diligence in accordance with AML regulations, and by neglecting to promptly report suspicious transactions, Unipol was confronted with money laundering charges. The type of complex relationships and monetary transactions between the parties of an insurance contract may create opportunities for money laundering (Ferwerda & Reuter, 2019)

Criminals consider insurance a legitimate avenue for laundering money due to the complex nature of insurance transactions and the substantial amounts of money involved.

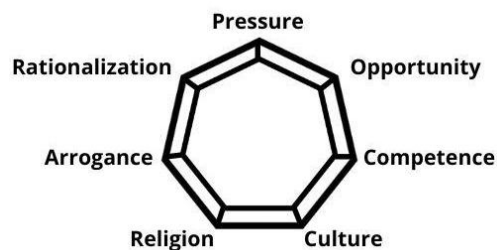
Additionally, the advent of technology and digitalization has exposed the insurance sector to cyber fraud, further heightening the risks of money laundering. It is projected that the insurance industry could incur losses of approximately USD 80.7 billion due to cyber fraud by 2024. Money launderers might acquire insurance products using false personal or corporate information to conceal the source of their illegal funds (Tobing, 2018). To address these evolving threats, insurance companies need to bolster their anti-money laundering (AML) initiatives and remain vigilant in detecting and preventing money laundering activities. According to (Financial Crime Academy, 2024), to reduce the risks associated with money laundering, insurance firms should adopt comprehensive AML risk assessment practices, conduct thorough customer due diligence, and implement beneficial ownership checks.

Money laundering in the insurance sector has a major risk profile, not just for individual firms but also for broader economic health. Despite established regulatory frameworks and AML policies, criminals are constantly searching for weaknesses in the system to circumvent these pitfalls. This means that the old ways of detecting fraud might not be able to keep up with cunning money launderers, therefore, a deeper understanding in terms of novel behaviour of fraud needs to be adopted. Reskino (2022) expanded on earlier fraud models and developed the Fraud Heptagon theory. The first five of these dimensions: pressure, opportunity, rationalization, competence, and hubris, are based on more traditional constructs like the Fraud Triangle, Fraud Diamond, and Fraud Pentagon. These theories have been extended further by Reskino (2022) to incorporate two additional dimensions, namely culture and religion, to explain fraud more holistically. According to this theory, fraud happens because of a lack of following religion and a strong company culture. With these new components in place, the Fraud Heptagon provides a more integrated perspective on elements motivating fraud behaviour, especially in cultural and religious contexts, like Indonesia. By viewing the situation at a greater distance, organizations can apply more targeted approaches for implementing money laundering detection in the insurance industry.

## REVIEW OF LITERATURE

### Fraud Heptagon Theory

Fraud Heptagon Theory is the latest development in Fraud Theory, which has been developed by (Reskino, 2022). This theory aims to plug the gaps in previous literature that largely had a lack of understanding when it came to religious and cultural influences of fraud. It gives rationale about to do fraud that due loss of believe or group culture in an organization and at last it need positive environment in an organization. In Indonesia which consists of a majority of the population who practices religion, the urge to commit fraud can be reinforced by supporting elements in the form of religious factors. Another extremely important ingredient is culture, as the identity of an organization largely influences its employees character and ethical behavior. The other five proxies are consistent with those used in previous theories, such as the Fraud Triangle, Fraud Diamond, and Fraud Pentagon. To account for what influences the incidence of fraud in the context of culture and religion, two additional dimensions are incorporated into these previously established theories (Reskino, 2022). These original five dimensions, which include pressure, opportunity, rationalization, competence, and arrogance in their scope, are embedded from previous models of fraud; thus forming the heptagon satisfaction theory for fraud, constituted of seven separate dimensions comprising the pressure, opportunity, rationalization, competence, arrogance, culture, and religion.



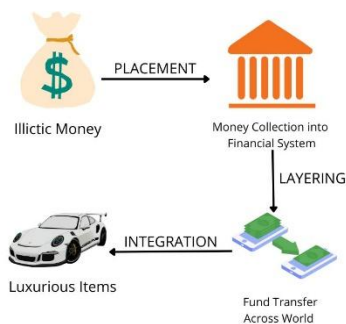
**Figure 1.**  
**Fraud Heptagon Theory**

Fraud motivations by religious faith, examining the impact of religious factors on fraud commission some studies from (Mujib, 2018), (Purnamasari & Amaliah, 2015), (Rifdayanti, Wahyudi, & Yusnaini, 2020), and (Said, Rafidi, S., & Alam, 2018), based on

the line of thought that fraud is often a consequence of people losing confidence. Culture also has a critical impact on organizations that defines how people act and behave ethically.

### Money Laundering

There are generally three or more stages to the money laundering process. The first stage is Placement. During this phase, the owner of the money tries to funnel funds gained through crime into the financial system. For instance, you might deposit some funds into a bank or other financial services business, then go immediately and apply for credit. In the second stage, Layering, the fund owner moves money drawn from multiple accounts to different places or through various transactions to confuse and remove any tracks leading back to the original source of funds. In some cases, the fund manager hides their identity by using someone else's name. Integration is the last of those stages. The fund owner will use the money, which looks legitimate at this stage, for other purposes like investment or to finance business (Gandhi, Tandon, Gite, Pradhan, & Alamri, 2024).



**Figure 2.**  
**Money Laundering Process**

Businesses typically implement a variety of AML protocols to prevent money laundering from being used as a tool of financial crime in the insurance sector. Such as identifying customers, risk assessment, tracking of transactions, and reporting for compliance and money laundering prevention (Kuzmenko, Lieonov, & Boiko, 2020). In 2017, the Financial Services Authority (OJK) attracted the attention of many stakeholders in the economy by issuing Regulation Number 12 of 2017 concerning Implementation of Anti-Money Laundering and Counter-Terrorism Financing Programs in the Financial Services Sector to deal with crime that is emerging in the financial space and has witnessed a very

strong financial component. In 2023, OJK finally replaced Regulation Number 12 of 2017 with Regulation Number 8 / POJK.03/2023. This regulatory update is a proactive step taken by OJK against new prevalent threats and to fulfill international standards in financial crime prevention, focusing on making it harder to commit illicit acts within the financial system.

### **Money Laundering in the Insurance Industry**

The insurance sector has unique characteristics regarding money laundering risks. As a collaboration between three partners, money laundering is defined as "white-collar" crime and has obtained an extremely sophisticated nature in terms of methods, codes, acts, and shapes (Ramada, 2022). Some of the most important features that distinguish money laundering in the insurance industry include:

**Anonymity:** The insurance industry deals with a vast number of corporate and individual clients, some of whom may conduct transactions under false identities or aliases, concealing their true identities and the sources of their funds. This anonymity creates opportunities for money laundering activities, as fraudulent identities are often used to legitimize illicit funds through fake insurance policies. This can occur when business comes from insurance brokerage firms, as brokers sometimes neglect to apply the know-your-customer (KYC) principle, thereby increasing the risk of anonymity. As a result, the insurance sector faces a heightened risk of money laundering (Ofoeda I, Agbloyor E K, Abor J Y, & al, 2022).

**Significant Transactions:** The insurance industry often involves large transaction amounts, providing opportunities for individuals involved in money laundering to hide and move funds through complex transaction arrangements or numerous smaller transactions. Money launderers may purchase high-value insurance policies to finance their operations, allowing them to pay large premiums and receive checks from insurance companies that do not track the original source of the funds (Acharya, 2015). Additionally, perpetrators may intentionally overpay premiums, then request a refund for the excess amount. The money refunded by the insurance company can appear as legitimate funds, even though its origins are illegal. Furthermore, when policyholders cancel their policies before the coverage period ends, they may receive a refund for part or all of the premiums paid. If the initial premium was funded with illegal money, this refund can also become a seemingly legitimate source of funds after passing through the insurance system.

**Insurance Contract Complexity:** Insurance contracts often involve complicated relationships and financial transactions with multiple parties, creating opportunities for money laundering schemes to take advantage of, such as filing fraudulent claims or using insurance products to move illicit funds (Ferwerda & Reuter, 2019). By working with undisclosed parties through insurance companies, money launderers can better hide their illegal activities. Additionally, these accounts may be distributed across various positions, resulting in illicit transactions that can escape detection. As the number of participants increases, the concealment of each money laundering operation becomes more pronounced, ultimately leading to the creation of a complex network of interests.

**Insurance Product Versatility:** There is a wide range of insurance products available, including mobile vehicle insurance, property insurance, medical insurance, and others. This variety gives money launderers the chance to hide and transfer funds using different products. Agents or brokers typically receive a commission as a percentage of the premiums paid by policyholders. In some poorly supervised cases, agents or brokers may use this commission to assist money launderers in concealing the original source of funds. To combat money laundering, insurance companies generally adopt various anti-money laundering strategies, including conducting customer due diligence, performing risk assessments, and monitoring and reporting transactions to ensure compliance (Kuzmenko, Lieonov, & Boiko, 2020).

## RESEARCH METHOD

The research design involved conducting in-depth interviews alongside non-participant observation. Initially, all meetings were observed to better understand decision-making processes, identify key interview participants, and gain insights into the organization's culture. A purposive sampling method was used to select an initial sample of 10 informants, based on the insights gained during the observations. The participants included those holding significant positions in the general insurance sector, such as internal auditors, insurance agents, underwriters from insurance companies, reinsurance companies, and insurance brokers. Employees with a history of financial crime or who were under investigation for such offenses were excluded to prevent biased responses, as they might feel compelled to protect themselves or avoid negative consequences.

**Table 1.**  
**Distribution of Informant**

Informant	Detail Description		
	Quantity	Length of Employment	Sector
Underwriter	4	6-15 years	Insurance Company
Insurance Agent	2	2-5 years	Insurance Company
Underwriter	1	6 years	Insurance Broker
Internal Auditor	1	5 years	Insurance Company
Finance	1	10 years	Reinsurance Company
Underwriter	1	12 years	Reinsurance Company

Source: Processed by researcher (2024)

Interviews were conducted through Google Meet. To ensure accuracy, interview summaries were reviewed and confirmed by the participants. The questionnaire used during the interviews contained 42 questions, divided into seven sub-sections: Pressure, Rationalization, Opportunity, Arrogance, Competence, Culture, and Religiosity. The interview questions were based on a questionnaire developed by (Reskino, 2022). Each interview took between 60 to 90 minutes. The interviews were transcribed and analyzed using the constant comparative method to identify recurring themes and patterns (Coast, 2017). This study utilized NVivo software to determine patterns in the responses from the informants.

## **RESULTS AND DISCUSSION**

### **Pressure**

Pressure is an internal or external force, such as environmental influences, that compels an individual to engage in deviant actions, such as fraud (Hartanto, 2012). Financial pressure within the insurance industry can drive fraudulent actions. Insufficient income may create financial strain (Lambsdorff, 1999). When employee compensation does not reflect their workload and the high-risk nature of their roles, it may rationalize fraudulent conduct (Cressey, 1973). Employees may even assist money launderers in executing such actions. (Cohen, Ding, Lesage, & Stolowy, 2012) demonstrated that financial pressure is a significant motivator for fraudulent behavior. According to Cressey's (1973) fraud triangle theory, financial pressure is a critical factor that can provoke fraudulent actions.

In our study, we found that respondents agreed that financial pressure remains a key factor driving individuals to commit fraud, particularly in the context of money laundering. Meanwhile, several respondents noted that, from their experience, even with adequate remuneration, some individuals may still commit fraud to sustain their lifestyle. Several companies frequently organize departmental activities despite limited operational budgets, which may indicate one of the reasons individuals might engage in fraud, particularly money laundering conducted collaboratively or through collusion. Nevertheless, it is highly unlikely that individuals would frequently commit fraud in this context, as they believe that fraud generally prioritizes larger personal gains. Our findings are consistent with Attribution Theory, which proposes that individuals commonly ascribe their actions to either internal or external influences. In this case, the need to sustain a particular lifestyle serves as an internal rationale for engaging in fraudulent activities, even when income levels are sufficient. External pressures can create additional motivation for individuals to rationalize such unethical behavior.

### **Rationalization**

Rationalization is the process of presenting logical or generally accepted reasons and self-justification for fraudulent behavior by an individual (Albrecht, 2012). Rezaee & Wang (2019) suggest that rationalization is a necessary precursor to deceitful or criminal acts. Offenders frequently justify their actions beforehand, intertwining rationalization with

ethical and moral considerations. Ribeiro et al (2020) explain that rationalization is a cognitive process through which perpetrators normalize and socially accept their actions, finding reasons to legitimize their behavior. Domino (2015) further describes rationalization techniques as methods for excusing fraudulent acts like corruption, thereby diminishing feelings of guilt. Similarly, Kong et al. (2019) and Mui et al. (2015) depict delinquent acts aimed at illicit wealth accumulation, where perpetrators rationalize their behavior as standard or acceptable conduct.

Our interview findings indicate that fraud in the insurance industry, particularly money laundering, can occur through highly complex schemes. These schemes involve many parties, including clients, insurance agents, brokers, and insurance company staff. They might justify their involvement by perceiving their actions as normal, necessary, or even beneficial. Many fraudsters believe that using any method to achieve personal objectives they see it as justifiable or even normal behavior. This mindset is often facilitated by rationalization, where individuals convince themselves that the ends justify the means, despite the unethical nature of their actions. This perception allows individuals to bypass moral and ethical concerns, where achieving targets or personal gains is prioritized above all else. Collusion indicates a conspiracy between employees and business partners aimed at securing personal gains, often through unethical or fraudulent means. This collaboration undermines organizational integrity and creates opportunities for illicit activities, such as financial fraud or manipulation. Companies can detect fraudulent activity by identifying repeated claims where the attachments or vehicle photographs are identical to those submitted in previous claims. This pattern of duplication serves as an indicator of potential fraud and can be flagged for further investigation to ensure claim legitimacy.

### **Opportunity**

Opportunity refers to situations that enable individuals to commit fraud, either deliberately or inadvertently, due to the availability of favorable conditions (Nurkhin & Fachrurrozie, 2018). Perceived opportunity relates to an individual's understanding of how a crime could be committed. This idea involves recognizing ways to exploit one's position of trust to solve personal financial challenges (Kranacher, Riley, & Wells, 2010). According to this concept, individuals capitalize on the circumstances they encounter (Kelly & Hartley,

2010). They only need to believe an opportunity is present, whether or not it truly exists. Perceived opportunity is akin to perceived pressure, as fraud is more likely when individuals think their risk of being caught is minimal (ACFE, 2020). Factors that contribute to perceived opportunity and might lead to fraud include assuming the employer is unaware, believing no one will notice or care, viewing policy breaches as seldom scrutinized, and thinking the behavior won't be taken seriously (Sausser, 2007). Additional risk factors that heighten fraud opportunity include the industry type or organizational structures, complex transaction processes, and extensive related-party transactions (Nguyen, 2010).

In the insurance industry, there is a highly complex revenue recognition system, and this complexity can be exploited by certain parties to engage in money laundering. In addition, there are many players operating within the insurance industry, including insurance brokers, reinsurance brokers, reinsurance companies, and insurance companies. Generally, insurance companies acquire their customers through two main channels: first, directly from clients to the insurance company, and second, from clients to insurance brokers, who then connect them to the insurance company. Insurance brokers play a crucial role in the insurance industry. The Indonesian General Insurance Association (AAUI) reported that the total premium income for the general insurance industry reached IDR 57.9 trillion in the first half of 2024. The largest share of premium income by distribution channel comes from brokers, accounting for 34.5% in the first half of 2024. Direct sales ranked second at 27.7%, while the remaining portion comes from leasing and agents (Kontan, 2024).

To detect potential opportunities for fraud in the insurance industry, this study conducted interviews with individuals working in insurance companies (including underwriters and agents), reinsurance companies, and insurance brokers to gain insights into complex trading schemes. This research identified several areas within the industry that are indicated as potential avenues for money laundering. This study uncovered instances of "symbolic policy" transactions between insurance companies and brokers, wherein the policies issued permit the insurance companies to avoid any actual risk. These policies typically feature expired coverage dates, thereby preventing any legitimate claims. In these policies, insurance companies also require clients to sign a 'no-claim' statement. These policies offer significantly lower premiums compared to standard policies. Although they

present substantial financial benefits, few insurance companies issue these policies due to the high risks involved and concerns about regulatory compliance. The broker representing the client argues that a formal policy is needed solely for administrative purposes, as certain companies require insurance coverage for all operational activities. They claim that they forgot to ensure these activities beforehand, making it impossible to process the payments.

This scheme presents a significant potential for money laundering. In the initial placement phase, clients purchase insurance policies through brokers, who then present the proposed business to an insurance company. The insurance company issues an invoice to the broker for a specified amount, which the broker subsequently invoices to the client, using an invoice they generate. If collusion occurs, the broker can inflate this invoice, allowing the client to pay an artificially high amount. This inflated payment becomes part of the layering phase, where the client now holds a high-value invoice to obscure the origins of their funds. Finally, in the integration phase, the broker may return a portion of these funds to the client as cashback or commission, often routed through a marketing agent. This process effectively disguises the funds and facilitates their integration back to the client under the appearance of legitimate transactions.

Several additional avenues may create vulnerabilities for money laundering within the insurance industry. One involves improper claim payments, where clients may collude with claims staff. In this scheme, the claims staff collaborate with unscrupulous repair shops to inflate the estimated loss, resulting in a higher payout than warranted. This underscores the need for insurance companies to regularly evaluate their approved repair shops. Another possible avenue for money laundering lies in policy cancellations with large sums. In this scenario, clients receive an invoice for a high-value policy to mask their wealth. After obtaining the policy, clients may cancel it, triggering a refund from the insurance company minus cancellation fees. This process allows clients to legitimize funds while retaining a record of the initial high-value policy. The insurance tender process may also present opportunities for money laundering by exploiting existing loopholes. Typically, the insured company or client imposes numerous requirements with a limited time frame, enabling collusion with a preferred insurance provider to meet these criteria and secure approval in

the tender process. The insurance company may offer a commission through its agents, designated as marketing expenses, to the insured company to secure the tender.

In managing their risk exposure, insurance companies may transfer some of their risks to reinsurance companies. The reinsurance company receives premiums and assumes risk according to their share of the agreement. To better understand the potential for money laundering in this process, this study interviewed underwriters from reinsurance companies. They explained that from a reinsurance perspective, opportunities for money laundering are minimal due to the layered approval processes involved. Furthermore, transactions between insurance companies and reinsurers are typically business-to-business (B2B), with both parties striving to maintain their reputations. Audits are not only conducted by public accounting firms (KAP) appointed by the insurance companies, but also by firms designated by the holding company. Additionally, audits are overseen by various governmental bodies such as the Financial and Development Supervisory Agency (BPKP), the Financial Services Authority (OJK), and the Audit Board of Indonesia (BPK). With numerous audit levels in place, the potential for fraud is therefore significantly reduced.

The implementation of Anti-Money Laundering (AML) measures plays a critical role in mitigating the risk of money laundering activities within the financial sector. The Financial Services Authority (OJK) has issued Regulation Number 8 of 2023, replacing Regulation Number 12 of 2017, to enhance the fight against money laundering, terrorism financing, and the proliferation of weapons of mass destruction. The regulation outlines key responsibilities for financial service providers to establish and comply with Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) programs. These programs require financial entities to ensure that relevant professionals adhere to AML and CTF principles. The regulation also mandates the formulation and submission of an Individual Risk Assessment by providers, in line with risk-based approaches. The updated regulation introduces provisions for temporarily halting transactions that are suspected or proven to be linked to illegal activities such as money laundering, terrorism financing, or the proliferation of weapons of mass destruction. Additionally, it obligates customers and businesses to report required data to OJK's reporting system, strengthening the overall transparency and accountability in the financial sector. The implementation of this regulation reduces the opportunities for money

laundering by making it more difficult to carry out illicit activities within the financial system.

### **Arrogance**

Arrogance refers to a superior and haughty attitude exhibited by an individual who believes themselves to be the most superior, most capable, and most powerful in comparison to others (Crowe, 2011). Horwath (2020) identifies five key elements of fraud: pressure, opportunity, rationalization, capability, and arrogance. Arrogance reflects a lack of conscience, marked by traits of dominance, entitlement, or greed, with individuals believing they are exempt from corporate rules and procedures. Similarly, Mohamed et al. (2021) found that arrogance significantly contributes to employee fraud in Malaysian financial institutions. Devi et al. (2021) explain that when an individual experiences pressure, identifies opportunities, rationalizes actions, has the necessary capability, and displays arrogance, these factors may indicate fraudulent intent. Yusof (2016) explored arrogance by examining CEOs with multiple roles within and outside their firms, noting that optimal company performance should not rely on directors holding multiple roles, as this can increase the risk of fraud.

In this study, respondents acknowledged that money laundering cases often involve complex transactions with large sums and occasionally use terms and agreements outside of standard conventions, necessitating supervisor approval. An authoritarian supervisor with moral hazard issues may increase the likelihood of fraud, including money laundering, by pressuring subordinates to act outside established guidelines.

### **Competence**

Competence refers to the personal attributes that enable an individual to develop the necessary skills and expertise to execute fraudulent activities undetected by others (Abdullahi & Mansor, 2015). Kartikasari and Fitriani (2021) describe competence as an individual's ability to override external controls, formulate strategies, and hide information for personal benefit. High-stakes fraud cases often require individuals with specialized skills to identify and exploit opportunities. However, Siddiq et al. (2017) found that competence does not significantly influence fraudulent financial reporting. Competence entails the capability to bypass internal controls, craft strategies to obscure information, and leverage social contexts to meet personal goals (Horwath, 2011). According to Wolfe and Hermanson (2004), fraud

cannot take place without the involvement of someone equipped with the requisite skills to execute it.

With their acquired competence, individuals are capable of fabricating lies that go undetected, as others lack the ability to identify them. According to the findings of this study, fraudsters often hold trusted positions within an organization, which allows them to carry out fraudulent activities without raising suspicion. To facilitate their fraudulent activities, fraudsters often collaborate with external parties, such as repair shops, to create the illusion of legitimate claims. This collaboration enables them to manipulate the claims process and present false information as if it were genuine. Fraudsters create fraudulent partnerships with fake repair shops and establish bogus bank accounts, resulting in numerous accounts under different names. This enables them to disguise the flow of illicit funds and facilitate fraudulent transactions without detection. With their skills and expertise, fraudsters are able to influence their colleagues to follow their directives. Fraudsters often possess strong communication abilities, which allow them to persuade others during the approval process, thereby facilitating fraudulent actions within the organization. With their capabilities, individuals can exploit situations to engage in unethical actions. Fraudsters are adept at leveraging their skills to take advantage of circumstances, enabling them to carry out dishonest activities undetected.

### **Culture**

Suh and Shim (2020) indicate that culture encompasses the collective beliefs regarding the operation of an organization, whereas climate pertains to the shared perceptions of its current functioning. There is a notable positive correlation between culture and fraud prevention. Various strategies can help mitigate fraud, such as utilizing local cultural practices to penalize offenders and promote accountability (Saputra, Mu'ah, J., & Manurung, 2022). Cultural strategies often dissuade individuals from engaging in fraud by prompting them to reconsider their actions multiple times before proceeding (Majid, 2014). Recent research suggests that increasing organizational investment can enhance an anti-fraud culture and improve the effectiveness of monitoring controls. However, only a robust ethical corporate culture is significantly associated with a decreased perception of fraud within organizations (Suh & Shim, 2020). Many studies also emphasize the critical role of

cultivating an ethical culture in corporate anti-fraud initiatives (Gill & Goldstraw-White, 2015).

Respondents acknowledged that a company's culture has a significant influence on whether individuals engage in fraud. In environments where fraudulent practices are common, people are more likely to follow suit. Therefore, it is crucial to establish a positive work environment to deter unethical behavior. Creating a positive work environment can be achieved through various approaches. Recognizing employees' ideas fosters a sense of appreciation, making them feel valued. Two-way communication is also essential to understand the challenges employees face, allowing for collaborative problem-solving. Additionally, fostering teamwork through activities such as company outings can strengthen employee solidarity and create a supportive, constructive workplace culture. According to some respondents, individuals engaging in fraud can often be identified by an extravagant lifestyle that is disproportionate to their salary. Fraudsters may share their illicit gains by treating colleagues to maintain a sense of camaraderie and reduce suspicion about their activities.

### **Religiosity**

Religiosity refers to how an individual understands, internalizes, and integrates religious norms into their character, making these values an integral part of their identity. The intention to engage in fraudulent behavior can be suppressed when religious values are deeply embedded within a person (Reskino, 2022). Glock and Stark (1965) define religiosity as an integrated system of beliefs, lifestyles, rituals, and institutions that provide meaning to human life and guide individuals toward specific values. Religiosity serves as an internal factor that can affect a person's propensity to commit fraud. Those with higher levels of religiosity are less inclined to engage in fraudulent activities, while individuals with lower levels are more susceptible to such behavior (Hayati & Amalia, 2021). A strong foundation in religious knowledge can discourage deviant actions. This is supported by research from Ananda et al. (2016), Purnamasari et al. (2015), and Safitri (2017), which indicates that religiosity has a positive impact on fraud prevention. Individuals with high religiosity are less likely to partake in unethical behavior. As fraud is considered an unethical act, it can harm

both the organization and other stakeholders involved. The intention to commit fraud may be mitigated if religious values are deeply internalized (Azizah & Reskino, 2023).

A lack of awareness or belief in divine oversight often leads fraud perpetrators to carry out their actions with fewer moral reservations. Thus, an individual's understanding of their religion can help prevent fraud by providing ethical guidelines. All respondents agreed that every religion promotes ethical behavior, and thus, adherence to religious teachings can discourage individuals from engaging in unethical actions. Some respondents noted that, in practice, perceptions of a person's piety can sometimes differ from their actual behavior. Even individuals with a strong outward display of religious devotion may commit fraud due to high demands and available opportunities. Respondents believe that faith can fluctuate over time, underscoring the importance of fostering a positive organizational culture to support individual beliefs and reduce the risk of fraud.

## **CONCLUSION**

Insurance industry plays a critical role in protecting against financial losses from unforeseen risks, its complex structure and high transaction volume make it an attractive target for money laundering. To combat this, robust anti-money laundering (AML) protocols are essential. These include thorough customer due diligence, transaction monitoring, and adherence to regulatory frameworks. Enhanced internal controls and a strong corporate culture are also necessary to prevent and detect illicit activities. This study uses the Fraud Heptagon Theory to detect opportunities within the insurance industry that could potentially be exploited for money laundering. Financial pressure is identified as a primary driver, where inadequate compensation or high financial demands can create a rationale for fraud, aligning with Cressey's Fraud Triangle theory. Additionally, individuals often engage in rationalization, normalizing unethical actions by perceiving them as necessary or standard. This cognitive process enables fraudsters to bypass ethical concerns and justify their actions.

Opportunity is also a crucial component, facilitated by complex structures and numerous participants within the insurance industry, such as brokers, reinsurance company, insurance companies, which can create exploitable situations. These opportunities, when coupled with arrogance and the belief that rules do not apply to oneself, further heighten the

risk of fraud. Moreover, the presence of competence allows fraudsters to exploit internal control weaknesses, collaborate with external parties, and create deceptive schemes undetected. Corporate culture and religiosity play significant roles in either deterring or encouraging fraud. A positive organizational culture, emphasizing ethical values and transparent communication, can reduce fraud by creating an environment that discourages deviant behavior. Religiosity, as an internal ethical guide, has been shown to lower the inclination toward fraud. The alignment of personal and organizational values acts as a preventive measure against unethical conduct.

This study is limited by the relatively small sample size, encompassing only 10 respondents from Jakarta, Indonesia. Future research is encouraged to expand the number of respondents beyond Jakarta, as money laundering activities are systematically conducted and often involve international transactions. A broader geographical scope could provide a more comprehensive understanding of money laundering practices and enhance the generalizability of findings across different regions.

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