

Title: Tackling the supply of highly specialist printing equipment to fraudsters, to prevent the production of false identity documents. IA No: HO Lead department or agency: Home Office Other departments or agencies: Ministry of Justice, Department of Work and Pensions, Department for Transport, HM Treasury, Department for Business, Innovation and Skills, HM Revenue and Customs.	Impact Assessment (IA)		
	Date: 21/01/2013		
	Stage: Consultation		
	Source of intervention: Domestic		
	Type of measure: Primary legislation		
Contact for enquiries: Ariela Ferber, Home Office Identity Security Team			

Summary: Intervention and Options	RPC Opinion: Awaiting Scrutiny
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Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£-0.9m	£2.3m	£-0.26m	Yes
			In/Out/zero net cost

What is the problem under consideration? Why is government intervention necessary?

False identities are enablers of a range of criminal activity. Fraudsters require highly specialist printing equipment for making false identity and Government-issued documents. There is no specific law preventing the supply of such equipment to fraudsters and it is difficult to prosecute those who knowingly, or through not taking care to ensure they do not, supply equipment to them. There is a voluntary Code of Conduct for suppliers of highly specialist printing equipment, obliging them to follow good business practice by: maintaining records of transactions, profiling customers and not supplying equipment if they doubt the legitimacy of a customer, reporting this to the police. However, companies are not obliged to sign up to this and there is no mechanism to punish companies signing up but not abiding by the Code. For this reason, the Police Service and the industry have requested criminal offences of deliberately or negligently supplying highly specialist printing equipment to fraudsters.

What are the policy objectives and the intended effects?

The aim of regulating the industry is to prevent the supply of highly specialist printing equipment without measures first being taken to ensure it is not being supplied to fraudsters and used for making false identity documents, as per the provisions of the current voluntary Code of Conduct. This would make it more difficult for criminals to set up false identity document factories, and would thus prevent further crime, as false identity documents are known to be enablers of a range of criminal activity.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1) Do nothing.

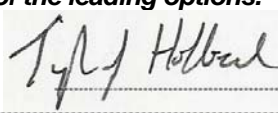
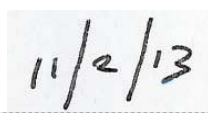
2) Self-regulation: getting the industry to regulate itself (via Project Genesis) by a system of 'naming and shaming' in the absence of criminal sanctions and extending the scope to all England & Wales, not just London as in option 1. This would encourage the industry to act responsibly, as acting irresponsibly could bring potential reputational risks.

3) Creating criminal offences through primary legislation, to criminalise the supply of highly specialist printing equipment without first taking measures to ensure it will not be used by fraudsters to make false identity documents. We suggest the offence of supplying equipment to fraudsters with intent is indictable (max. 10 years in prison/fine), and the offence of supplying equipment to fraudsters without reasonable excuse is triable either way (max. 6 months in prison/fine or 2 years in prison/fine).

The preferred option is 3, as the net benefits of option 3 outweigh the net benefits of option 2 and the evidence suggests that legislation would be the only effective means of tackling this problem. The industry has indicated it is unable to effectively regulate itself, a large proportion of the industry is not signed up to the existing voluntary Code of Conduct and there is no consequence for a company that signs up to the Code but fails to abide by it.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 04/2019					
Does implementation go beyond minimum EU requirements?				N/A	
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:  Date: 

Summary: Analysis & Evidence

Policy Option 2

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -1.7

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	4.4	0	4.4

Description and scale of key monetised costs by 'main affected groups'

Costs to businesses depend on existing practices. The costs of recording and storing transactional data range from zero to packages costing a minimum of approximately £400. Other costs range from zero to £500 for training, £150 for website updates and £250 for brochure updates per company, i.e. up to £4.4million for the industry as a whole. These estimates are based on discussions with Genesisius members - their accuracy will be tested through the consultation process.

Other key non-monetised costs by 'main affected groups'

None identified.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0.3	2.7

Description and scale of key monetised benefits by 'main affected groups'

Businesses deter fraudsters from making enquiries with them by using the Metropolitan Police Service (MPS) and Genesisius brands. Project Genesisius helps to increase companies' awareness, helping to reduce loss of revenue – which we estimate is worth up to £1.3-2.2million per year lost in fraudulent orders for the industry as a whole, which is estimated to save profits in the region of £191,000- £450,000.

Other key non-monetised benefits by 'main affected groups'

This option could be implemented immediately. Getting the industry to regulate itself would reduce the likelihood of criticism of the Government imposing regulatory burdens on business.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Key assumptions made are that all of the companies in the highly specialist printing industry, including those outside London, could be reached and recruited to Genesisius, and that Genesisius could successfully 'name and shame' companies not complying.

Key risks are that many companies in the industry are not reached or not successfully recruited, and that there continues to be no real consequence for companies not complying.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.5	Benefits: 0.3	Net: -0.2	No	NA

Summary: Analysis & Evidence

Policy Option 3

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -0.9

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	2.4	0.15	3.7

Description and scale of key monetised costs by 'main affected groups'

Costs to businesses depend on existing practices. The costs of recording and storing transactional data range from zero to packages costing a minimum of approximately £400. Training costs range from zero to £500. Total one-off costs to the industry are £420,000. These estimates are based on discussions with Genesius members - their accuracy will be tested through consultation. There would be costs associated with additional cases being brought to prosecution. We estimate 4 additional prosecutions resulting in 2 convictions per year, costing £1.3million in PV over 10 years to the CJS.

Other key non-monetised costs by 'main affected groups'

Further cases which have not so far come to police notice could come to light by the creation of new criminal offences, but these are not currently quantifiable.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0.3	2.7

Description and scale of key monetised benefits by 'main affected groups'

By criminalising the supply of highly specialist printing equipment to fraudsters and therefore increasing business' awareness of suspicious behaviour, it is estimated that companies will save 3% of their profits from the prevention of fraud against them. This equates to £1.3-2.2million per year, which is estimated to save profits in the region of £191,000- £450,000 – the same as for option 2.

Other key non-monetised benefits by 'main affected groups'

As the proposed offences are not currently criminal offences, it is difficult to estimate whether they would lead to a saving in police time. However, the new offences would make successful prosecutions more likely, with the resulting benefits that this would bring, including bringing more people to justice. Criminalising the supply of highly specialist printing equipment to fraudsters may act as a deterrent for such behaviour, therefore preventing the supply of equipment where its illegal onward use is known or suspected.

Key assumptions/sensitivities/risks

Various assumptions and risks have been identified. See sections E and F in the Evidence Base for more detail.

Discount rate (%)

3.5

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.05	Benefits: 0.3	Net: 0.26	Yes	IN/OUT/Zero net cost

Evidence Base (for summary sheets)

A. Strategic Overview

A.1 Background

The National Fraud Authority (NFA) estimates that identity crime cost the UK at least £2.7 billion in 2010 overall, affecting around 1.8 million people¹, with a cost to individual UK adults of £1.2 billion in 2011². False identity documents are a key enabler of further crime, allowing organised criminals to escape monitoring mechanisms and maintain the profits from their activity.

Project Genesisus began as a voluntary partnership between the Metropolitan Police Service (MPS) and partners within the highly specialist printing industry. It was initiated after the MPS identified a growing trend where illegal identity document factories were acquiring professional quality printing equipment and supplies to support their criminal activities, allowing them to produce high quality counterfeits of official and identity-related documents/cards. The MPS established a practitioner's working group, which developed a voluntary Code of Conduct. The Code obliges companies to maintain proper records of all transactions, profile customers against specific criteria and refuse to supply equipment if there are any doubts as to the legitimacy of a customer, reporting this to the MPS³.

Since the start of Project Genesisus in 2007, there have been 880 referrals from Genesisus members to the MPS. The Genesisus group has estimated that 75% of ID factories are being provided equipment by non-Genesisus members or members of Genesisus that are not complying with the voluntary Code. Genesisus referrals have so far resulted in 19 prosecutions, with custodial sentences averaging 3.5 years each. Through Genesisus, 18 pan-EU organised crime networks have been identified; £10m worth of confirmed fraud has been identified; £5m worth of fraud has been prevented against public and private sector organisations; there have been 3,000 matches against Local Authority data (e.g. payroll, housing benefit claims); and over 1,000 disruptions of subjects working with children and vulnerable adults⁴.

The industry

Project Genesisus has estimated that there are around 10,000 organisations in the UK within the specialist printing industry. These can be broken down into three separate strands:

1. Plastic card printers.
2. The rubber stamp industry.
3. Suppliers of specialist security consumables.

Since Project Genesisus started in 2007, an estimated 80% of manufacturers in the industry have signed up to the voluntary Code, but these only make up a small proportion of the industry as a whole. Project Genesisus has been successful in signing up 170 member companies, with 40 new companies signing up in the last year. However, it has been less successful at reaching resellers, retailers and the second-hand market. The scope of any new legislation would have to be carefully considered.

1. Plastic card printers

The number of UK companies represented in this strand is estimated to be between 100-500⁵. In 2010, the most recent available figure, 6,000 plastic card printers were sold in the UK, representing an estimated total 20,000 transactions. The projected average reseller sales price of a printer to end users ranges from £678 for low-end printers, to £1,968 for high-end printers⁶. The estimated annual turnover of UK sales is between £10.4million and £30.3million⁷.

¹ <http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-fraud-indicator/annual-fraud-indicator-2011?view=Binary>

² <http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-fraud-indicator/annual-fraud-indicator-2012?view=Binary>

³ http://www.met.police.uk/op_maxim/genesiuss.htm

⁴ Data from Project Genesisus Proposal for Legislation Change, Metropolitan Police Service, figures from 2007 to January 2012.

⁵ Based on information provided by Project Genesisus.

⁶ V. Anjargolian, Desktop Card Printing Business and Market Analysis, 2011. Conversion rate from \$ was calculated based on the standard exchange rate of £1 = \$1.601, at 11/9/12 using <http://www.exchangerates.org.uk/> and original figures of \$1,085 and \$3,150.

⁷ Based on original figures of \$6.51million and \$18.9 million.

2. Rubber stamps

There are 50-80 rubber stamp makers supplying commercial stamps in the UK. There are also up to 3,000 small manufacturers and resellers. Industry customers range from wholesalers, contract stationers, buying groups, independent stationers and retailers, online websites and direct sales to the end user. The rubber stamp and associated marking devices industry provides products that enable users to authenticate and certify documents. For example, date and time stamps, address stamps, stamps to authenticate marriage certificates, border control stamps used in passports, visa stamps from embassies and car service stamps.

The Rubber Stamp Manufacturer's Guild (RSMG) estimate the annual turnover of commercial stamps in the UK to be between £25m-£30m⁸. Distributors/resellers in this strand of the industry range from organisations with multimillion pound annual turnovers, to small, family-run businesses. The annual turnover of companies signed up to Project Genesis ranges from under £100k to over £4m. There is no information available to indicate the volume of stamps produced from stamp making kits sold in the UK.

Membership of the RSMG requires that all members sign up to Project Genesis. If any member should fail to comply with that ruling, the Board of Directors would review the continued RSMG membership of that company. However, in practice this is not enforceable and those who may be knowingly supplying equipment to criminals are not thought to be put off by the threat of eviction from the RSMG. The industry therefore advise that legislation would be the only efficient way of preventing companies from engaging with those who may be using the equipment to produce false identity documents.

3. Suppliers of specialist security consumables

This strand of the industry is diverse and includes:

- Hot foiling dies
- Hot foil stamping machine
- Conventional hot stamping foils – mainly decorative (e.g. passport covers)
- Other hot stamping foils e.g. UV, thermally reactive and colour switch
- Photopolymer plates
- Holograms (hot stamping foil or laminate), stickers and labels
- Signature panel and magnetic stripe materials (e.g. used on ID cards and credit cards) - these could be ink, thermal transfer ribbon or hot stamping foil
- Protective overlays and retransfer films
- Security inks
- Security papers
- Plastic card printer spare parts
- Part finished print materials.

There are numerous small companies supplying consumables in this sector. The majority of these are businesses with less than 25 employees, operating as distributors or resellers for much larger organisations that manufacture outside the UK. It is almost impossible to estimate the number of companies in this strand of the industry beyond those that are members of Project Genesis. The estimate of this strand is therefore likely to be a conservative value. This strand of the industry has an estimated annual value of £9-12million. This is based on the market for commercial security holograms and hot stamping foils being worth approximately £3-4million per year and the market for high security products, including Government documents such as driving licences, passports and car registration documents, being worth approximately £6-8million⁹.

The International Hologram Manufacturers Association (IHMA), of which there are 4 UK member companies, maintains a register of security images and advocates good business practice in the industry. Some of the international companies in the IHMA may also supply to the UK.

Project Genesis was originally formed to control the supply of machines used in the industry and is now working to reach the specialist printing consumables market. Any proposal for new legislation would have to consider whether all of the highly specialist printing industry would need to be in scope, and ensure that future technologies are also considered. This may include

⁸ Estimates from Rubber Stamp Manufacturer's Guild (RSMG) on 19/7/12.

⁹ Based on information provided by Project Genesis.

extending the scope, for example to include scanners that are used to verify identity documents and could be utilised by fraudsters to test the quality of counterfeit documents.

Police

It is difficult to estimate how many cases per year are pursued by the MPS, as all referrals are looked at and will fall into one of four categories, with varying amounts of police time required for the different types:

- 1) A genuine order, requiring no further action by police after initial checks have been completed.
- 2) An order related to a document factory.
- 3) An order to purchase goods using compromised credit cards to ship the goods out of the UK.
- 4) An individual seeking to purchase one document/card for an illegal reason.

The initial case that led to the setting up of Project Genesis is a good example of a complex case in this area. In that case, two officers were dedicated to the enquiry full time for approximately 2 years. Together with other officers, the total cost for police officers on this case is estimated to be £332,000. Forensic submissions resulted in a further £100,000 in costs, so the total estimated cost to the MPS for this one case was £432,000. The proposed new offences may not lead to a substantial reduction in policing costs, as proving intent would still be challenging, however, the chances of obtaining successful convictions would be improved. This could result in reduced criminal behaviour and improved public protection, although we are unable to estimate the impact of this, or of the potential effect of deterrence.

A.2 Groups Affected

Private sector groups directly affected are manufacturers, distributors, resellers, retailers and the second hand market of the 3 strands of the highly specialist printing industry (see A.1 above).

Government Departments would see fewer false identity documents used, for example to commit benefit fraud or bypass criminal records checks for working with children or vulnerable adults. All Departments that make use of official identity documents have an interest in this as they would benefit from the reduction of false identity documents in circulation. Similarly, businesses in the private sector that rely on official identity documents, e.g. banks, that need to verify identity when a new account is opened, would benefit from the reduction of false identity documents in circulation.

A survey by the NFA estimated that in 2011, businesses experienced an average loss of 3% of annual turnover through fraud¹⁰. The proposed legislation would go some way to tackling such losses to business, by increasing their awareness of suspicious behaviour and helping to prevent them becoming the victims of fraudulent transactions, with the resulting loss in revenue.

A.3 Consultation Within Government

This impact assessment will go out for consultation with all Government Departments as well as Scotland, Northern Ireland and Wales.

Public Consultation

This impact assessment will go out for consultation.

B. Rationale

This impact assessment will help to inform a decision on whether regulation is needed, and if so, what type of regulation would be most appropriate.

Attempts at self-regulation by the industry have so far not been successful. There is no penalty for a company that has signed up to the existing voluntary Code of Conduct but fails to abide by it, nor is there a way to oblige all companies to sign up to the Code. It is also difficult to identify all the companies within this industry and therefore impossible to attempt to get all the companies in scope to sign up to the voluntary Code, even if it could be better enforced. Additionally, as police involvement in the group is limited to the MPS only, companies outside London have often been reluctant to join, thinking they are out of scope of Project Genesis. When intelligence leads the

¹⁰ <http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-fraud-indicator/annual-fraud-indicator-2012?view=Binary>

MPS to companies outside London, they have no power to ensure that the police force whose area the potential crime is in takes further action in the case. Under current legislation, it is very difficult to prosecute those who knowingly supply highly specialist printing equipment for use in making false identity documents. Those prosecuted are pursued for offences of conspiracy to defraud, but this is resource intensive to take to trial, and difficult to prove, with prosecutions often being unsuccessful.

Project Genesis' experience has shown that the problem cannot be fully addressed without legislation, therefore Government intervention is now necessary to legally enforce the requirements of the existing voluntary Code of Conduct.

C. Objectives

A successful outcome would mean a reduction in the number of false identity documents in circulation, and the identification and dismantling of false identity document factories. Businesses working to the provisions in the current Code of Conduct, or any legislation resulting from it, would benefit by increasing their awareness of how to identify suspicious orders and therefore saving time that could have been spent on enquiries that have little chance of providing legitimate business. They would also be less vulnerable to revenue lost from orders placed by fraudsters, e.g. unpaid orders or purchases made with stolen credit cards.

D. Options

Option 1 Do nothing.

Option 2 Self-regulation: getting the industry to regulate itself (via Project Genesis) by a system of 'naming and shaming' in the absence of criminal sanctions and extending the scope to all of England and Wales, not just London as in option 1. This would encourage the industry to act responsibly, as acting irresponsibly could bring potential reputational risks.

Option 3 Creating criminal offences through primary legislation, to criminalise the supply of highly specialist printing equipment without first taking measures to ensure it will not be used by fraudsters to make false identity documents. We are proposing 2 offences; the first would be an offence of supplying highly specialist printing equipment to fraudsters with intent, which would be indictable, with a maximum sentence of 10 years/fine. The second would be an offence of supplying highly specialist printing equipment without reasonable excuse, which would be triable either way, with a maximum sentence of 6 months in prison/fine or 2 years in prison/fine.

E. Appraisal (Costs and Benefits)

GENERAL ASSUMPTIONS & DATA

All costs and benefits are compared against 'Do nothing' (Option 1).

Option 2 assumes that the majority of businesses in the industry, including those outside the MPS' geographical area, could be reached and recruited to Project Genesis. This option also assumes that Project Genesis could enforce compliance by successfully 'naming and shaming' any businesses not complying.

Option 3, which is the preferred option, would result in costs to the police and the Criminal Justice System (CJS), to which the following assumptions relate.

- It is assumed that there would be four cases prosecuted each year, based on data on Mutual Legal Assistance (MLA) and figures on current prosecutions from Project Genesis, which are currently prosecuted under 'conspiracy to defraud'.
- It is assumed that the CPS pre-charge cost for prosecution is £42 per decision¹¹ and that this will apply for all four cases. In reality, some cases could end up in a caution, which would reduce the costs, or no further action, which would increase the cost per decision.

¹¹ Based on the MoJ cost benefit framework for 2008/09, updated to account for inflation using the HM Treasury GDP deflator series, presented in 2012/13 prices.

- It is assumed that a case would involve one defendant. However, in reality there could be more defendants per case, which would increase the costs.
- Over the last three years, the conviction rate for 'conspiracy to defraud', has been an average 59%. We have based our conviction estimates on this figure, and, due to rounding, out of the estimated four cases prosecuted, we have calculated that two are convicted¹².
- It is assumed that all four cases are tried under the more serious offence and are therefore indictable cases which can only be tried in the Crown Court. Indictable-only cases take an average of 7 hours in the Crown Court. This does not include any non-court time (for example, time spent preparing for the trials or time spent during adjournments).
- Legal aid costs are £2616.8 per case. The legal aid costs have been calculated using the total spend and total volume of cases on barristers and solicitors. It has been assumed that each case would involve one barrister and one solicitor, and that at Crown Court all defendants are eligible for legal aid. The figures have been based on the legal aid costs in the Crown Court for general fraud offences. The average legal aid cost per case takes into account the cost of full, guilty plea and cracked trials¹³.
- It is assumed that there will be no appeals. This assumption is based on a lack of data on which to base an alternative assumption. In practice, there is a significant risk that there will be some appeals, which would increase costs.
- Based on the average custodial sentence length resulting from Genesis cases to date, we estimate an average custodial sentence of 3.5 years. We have modelled the costs based on four year custodial sentences, of which it is assumed that offenders serve half the sentence length in prison, and half on probation. In reality, some custodial sentences could be much less than this, which would reduce the costs.
- Annual prison costs are estimated to be £28,000 per year¹⁴ in 2012/13 prices.
- It is assumed that there could be one-off costs to the police of becoming familiar with the new offence. It is assumed that in England and Wales there are 139,000 officers, including ACPO ranks (as at 31st March 2011). It is assumed that an officer would spend 15-30mins in training, which in 2012/13, would lead to one-off costs of £1.3-2.7million.
- It is assumed that the CPS would incur costs in prosecuting defendants in the Crown Court. The MoJ Criminal Justice System Cost Benefit Framework provides estimates of the CPS' average costs in 2008/09 for prosecuting defendants in the Crown Court. Costs are inflated using HMT data to get 2012/13 nominals. These are converted into real figures in 2012/13 prices and the SR real efficiencies from 2010/11 are applied on top. Other unit costs for the CJS were sourced from Legal Services Commission (LSC) statistics pack 2010/11. Table 1 summarises the CJS Costs.

Table 1: CJS Unit Costs (2012/13 prices)

	Conspiracy to defraud
CPS pre-charge cost per prosecution	£42
CPS Crown Court cost per defendant	£2,630
Defence representation cost per case (legal aid) Crown Court (not adjusted as LSC costs are fixed)	£2,617
Magistrates Court costs per sitting day	£1,380
Crown Court costs per sitting day	£2,124
Probation and community sentence costs	£2,899

Source: MoJ Cost-Benefit Framework Feb 2010, Legal aid unit costs from LSC data (2011/12), MoJ

¹³ Legal Services Commission Crime Higher Report, 2011/2012.

¹⁴ NOMS management accounts addendum, published 2011.

OPTION 2

COSTS

One-off costs

There is no direct cost in signing up to the Genesisus Code of Conduct. Some of the companies that are members of Project Genesisus have advised that abiding by the Code relates to usual good business practice and therefore the costs of complying would be negligible. At most, depending on a company's current procedures, they anticipate costs in the region of:

- a) Staff training, for 1-5 people, costing a one-off £100-£500. Based on discussions with Genesisus members, we estimate that 10% of the industry would incur this cost, i.e. 1,000 companies, at an overall cost to the industry of **£100,000-500,000**, or a best estimate of **£300,000**. This would then be built in to the usual training of new staff going forward, so would not result in additional ongoing costs. Genesisus have advised that often there is no need for training, just an initial raising of awareness, followed by regular circulation of Genesisus Alerts, which help to reinforce its use.
- b) Website updates i.e. to add the Genesisus logo, approximately £150 each, or as a one-off cost of **£1.5million** for the industry as a whole. This cost would be optional for companies.
- c) Brochure updates – this can be done at re-print time, limiting costs to artwork, approximately £250 each, or as a one-off cost of **£2.5million** for the industry as a whole. This cost would be optional for companies.
- d) The cost of recording, storing and auditing data is minimal, and most businesses already have some sort of system in place to do this. For those that don't, to set up a database for e.g. 5 users would cost approximately £400 in licensing costs. Consultation with the industry has demonstrated that the vast majority of businesses will already have such a system in place and that not more than 1-5% would require a change to their systems. This equates to 100-500 companies, i.e. a total one-off cost of **£40,000-£200,000**, or a best estimate of **£120,000** across the industry.

The best estimate total costs to business are **£4.4million**, which are one-off costs.

BENEFITS

Ongoing benefits

As there would be no need to wait for primary legislation, this option could be implemented immediately. Getting the industry to regulate itself would reduce the likelihood of criticism of the Government imposing regulatory burdens on business. The benefits to businesses of complying with the voluntary Code of Conduct are that any costs are offset with time savings and having better procedures in place to prevent losses in unpaid orders, in particular as training staff increases awareness around suspicious orders that could lead to loss of money to the business. The view of Genesisus members is that these savings eventually offset any costs, resulting in zero net costs for complying. For example, even one fraudulent transaction against a business in the highly specialist printing industry could result in the unrecoverable loss of equipment worth thousands of pounds, which for many businesses would be a significant loss.

UK-wide, 3% of annual turnover is lost by businesses through payment fraud. In this industry that would equate to £1.3-2.2million of turnover, or, assuming profit is 15-21%¹⁵ of turnover, **£191,000-£450,000** of profits. By using the MPS and Genesisus brands (e.g. on company websites and brochures) companies deter fraudsters from making enquiries with them. Together with the raised awareness of suspicious behaviour from being a Genesisus member, this saves companies an estimated 10-15% of their time from receiving and processing fewer suspicious requests and orders. Some of these savings are included in the 3% fraud figure, therefore these are not costed again here.

The best estimate benefit is **£2.7 million** in PV over 10 years and the Net Benefit is **£-1.7 million** in PV over 10 years.

¹⁵ Estimated using gross operating surplus for the printing industry as a proxy. Data sourced from the Annual Business Survey 2011 (<http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-276587>)

All the costs and benefits under this option relate to business; there would be no cost to the public sector.

ONE-IN-ONE-OUT (OIOO)

This option is not in scope.

OPTION 3

COSTS

As with option 2, the view of Genesis members is that any costs are eventually offset with time savings and having better procedures in place to prevent losses in unpaid orders, which they estimate to result in zero net costs for complying. The cost estimates here are initial estimates based on consultation with members of Project Genesis and the accuracy of these figures will be improved by going out for wider consultation. The overall cost would be less per business than option 2, and all 10,000 businesses would be legally obliged to comply under option 3, which they would not under option 2.

One-off costs

Private sector

Some of the companies that are members of Project Genesis have advised that abiding by the provisions of the Code of Conduct relates to usual good business practice and therefore the costs of complying with equivalent provisions in new legislation would be negligible. At most, for companies that do have to implement new ways of working, the maximum anticipated costs are in the region of:

- a) Staff training, for 1-5 people, costing a one-off £100-£500. Based on discussions with Genesis members, we estimate that 10% of the industry would incur this cost, i.e. 1,000 companies, at an overall one-off cost to the industry of **£100,000-500,000** or a best estimate of **£300,000**.
- b) The cost of recording, storing and auditing data is minimal, and most companies already have some sort of system in place to do this. For those that don't, to set up a database for e.g. 5 users would be, as for option 2, something in the order of £400 in licensing costs. Consultation with the industry has demonstrated that the vast majority of businesses will already have such a system in place and that not more than 1-5% would require a change to their systems. This equates to 100-500 companies, i.e. a total one-off cost of **£40,000-£200,000** or a best estimate **£120,000** across the industry.

Public sector

We have assumed that there would be one-off costs to the police of becoming familiar with the new offences, probably through the time they spend to read and digest new guidance. Using Home Office figures, we assume that there are around 139,000 police officers in England & Wales, including ACPO ranks, and that an officer would spend 15-30mins in training, leading to an estimated one-off cost of **£2.0million**.

Ongoing costs

Public sector

CPS costs would be incurred, and these are summarised in table 1 above. These costs are taken from the MoJ Cost-Benefit Framework (Feb 2010), with the legal aid unit costs taken from MoJ LSC data (2011/12), and have then been updated to 2012/13 prices. Using these figures, we have estimated there would be an ongoing cost of an average annual **£0.15million**, or **£1.3million** in PV over 10 years, to the CJS.

The costs were calculated based on a CPS pre-charge cost per prosecution of £42 and each case being heard at a Magistrates Court for 12 minutes, for which the cost is £55, after which each is heard in the Crown Court for an average of 7 hours, at a cost of around £3,025. The CPS cost per defendant at the Crown Court is taken as £2,630. Legal aid costs are £2,617 per case going through the Crown Court. Prison costs are calculated based on £28,000 per year, with probation costs of £2,899 per year, and offenders serving half their sentence in prison and half on probation.

The costs are based on four cases going through the CJS per year. This estimate is based on the proportion of cases for Mutual Legal Assistance (MLA) in the MPS area compared with the rest of England & Wales¹⁶; we assume that the MPS would make up 50% of the number of prosecutions throughout England and Wales for the new offences. Through Genesisus, there have been 19 prosecutions in the 5 years since the Project started, i.e. an average of 3.8 per year. Therefore we expect an average of 7.6 new prosecutions per year in England and Wales – 3.8 per year more than currently. We have therefore assumed four cases per year. While it is difficult to estimate how accurately the data from Project Genesisus could be extrapolated to numbers for the new offence, we consider it to be more directly comparable than using data for general fraud offences, which would cover a whole range of offences not relevant to Genesisus cases.

The conviction rate is based on an average over three years for 'conspiracy to defraud' from MoJ Justice Statistics Analytical Services data, with the rate being around 59%. Due to rounding, out of the four cases prosecuted, we have calculated that two are convicted. Based on the average custodial sentence length resulting from Genesisus cases to date, we estimate an average custodial sentence of 3.5 years. We have rounded this figure and modelled the costs based on four year custodial sentences. There is a lot of variability in this figure, so the numbers could end up being higher.

The best estimate of the total costs to the private and public sector is around **£3.7million** in PV over 10 years.

BENEFITS

Project Genesisus has estimated that 75% of identity document factories are currently being provided equipment by non-Genesisus members, or members of Genesisus that are not complying with the voluntary Code of Conduct. Currently, even if the Genesisus group were to insist that all resellers that sell products supplied by the manufacturers follow the Code, there would be no way to ensure that they remain in full compliance. There is no regulatory body, the industry is diverse and is often secretive to protect both commercial interests and that of its customers, often via legally binding contracts. The group therefore believes that self-regulation of the industry would not be sufficient and that only new legislation would effectively tackle the problem and prevent irresponsible behaviour by unscrupulous parts of the industry.

Ongoing benefits

Costs to the public sector could be mitigated to some extent by the costs saved in police and CPS time in these cases no longer being pursued as 'conspiracy to defraud' offences, which often result in unsuccessful prosecutions. Therefore, the costs to the public purse could be reduced to some degree, and the benefit to public protection would be increased. As an indicator, Project Genesisus has so far received an average 176 referrals per year, which have resulted in 19 prosecutions.

Many businesses are currently not aware of the dangers posed to them by fraudsters, and often are unable to recognise warning signs in suspicious orders. Creating new legislation would have the effect of educating businesses, by increasing their awareness and helping them prevent becoming the victims of fraudulent transactions, with the resulting loss in revenue. For example, as described under option 2, even one fraudulent transaction against a business in the highly specialist printing industry could result in the unrecoverable loss of equipment worth thousands of pounds, which for many businesses would be a significant loss.

Concern has been shown by Genesisus members that, as the Project is run in partnership with the London-based MPS, businesses outside London have been reluctant to sign up to the Code of Conduct. While the MPS pass on relevant intelligence from Genesisus to other police forces, they have no remit to enforce follow-up or to pursue prosecutions when the activity occurs outside of London. Legislation in this area would ensure consistency in approach across the country. We are consulting with the Devolved Administrations on whether they would want to join in any new legislation in this area.

As a proxy, again based on the proportions of MLA cases, we assume that the MPS make up 50% of cases in England and Wales. Based on figures from Project Genesisus, we expect legislation covering all of England and Wales to result in an extra £2million worth of confirmed fraud being

¹⁶ Source: Home Office

identified; £1million worth of fraud being prevented against public and private sector organisations; 8,600 matches against Local Authority data (e.g. payroll, housing benefit claims); and over 200 disruptions of subjects working with children and vulnerable adults per year. Some of these savings are included in the 3% fraud figure, therefore these are not costed again here.

There may be some potential benefits in that criminalising the supply of highly specialist printing equipment could deter individuals from knowingly supplying such equipment for use in making false identity documents, as they will no longer see themselves as beyond the reach of the law. However, this has not been quantified as it is not possible to quantify a theoretical deterrent in behaviour.

As discussed above, the NFA estimate that 3% of annual turnover is lost by businesses through payment fraud, 15-21% of which we assume to be profit. As for option 2, in this industry that would equate to £1.3-2.2million of annual turnover saved by having this legislation in place, and this is estimated to save profits in the region of **£191,000-£450,000**. As for option 2, the raised awareness of suspicious behaviour would also save companies an estimated 10-15% of their time from receiving and processing fewer suspicious requests and orders. Some of these savings are included in the 3% fraud figure, therefore these are not costed again here

The best estimate benefit is **£2.7million** in PV over 10 years and the Net Benefit is around **£-0.9 million** in PV over 10 years.

ONE-IN-ONE-OUT (OIOO)

Costs (INs)

£0.05 million

Benefits (OUTs)

£0.3 million

NET

£ 0.26 million i.e. ZERO IN.

F. Risks

There is a risk associated with any assumption made in section E above. Table 2 summarises the risks associated with the CJS.

OPTION 2

- This option relies on Project Genesis successfully recruiting companies outside London, which it has so far found difficult to do. There is the risk that this would continue to be unsuccessful.
- There is a risk that companies would refuse to sign up to the Code. Some companies have already stated that they would not comply unless this became a statutory requirement.
- Companies cannot be forced to comply with the existing voluntary Code of Conduct. 'Naming and shaming' is the only way to deal with companies not complying with the Code, but there is a risk that this will be insufficient to tackle the issue, as Genesis members are reluctant to 'name and shame' companies that break the Code or refuse to sign up to it. There is therefore the risk that this option would not result in any significant improvement to the current situation.
- Our assumption with this option is that there would be no additional cases brought to prosecution as this option focuses on ensuring correct behaviour in the first place, with the threat of the reputational risks to a company being a deterrent to unscrupulous behaviour. However, there may be a risk with this option that by identifying companies not complying, additional cases could be brought to prosecution, which would increase costs to the CJS.

OPTION 3

- There is a risk that new legislation could be seen as the Government imposing a burden to business. To mitigate this risk, we are reviewing the current fraud legislation, with a view to removing any regulation that causes an unnecessary burden to business.

Table 2: CJS Risks

Assumption	Risks
HMCTS costs	Court costs may be higher than the averages assumed as there may be additional costs associated with the translation of court documentation and the use of interpreters during court hearings.
Volume of cases	We have estimated the number of cases based on the data available from Project Genesis. If the new legislation makes it easier to successfully prosecute such cases, there could be more cases than estimated going to prosecution.
Definition of new offence	We have made simplifying assumptions over what the offence may look like, however, in reality this could be different and result in higher or lower costs. There is also a risk that any proposed offence could be changed during passage through Parliament.
59% conviction rate	Based on an average of 3 years' conviction rates for 'conspiracy to defraud', a 59% conviction rate is assumed for the new offences. There is variability in the 3 year average conviction rate for 'conspiracy to defraud' and so in reality this could end up being higher. There is a chance that some defendants may be acquitted, which would result in lower costs than those modelled here. There is a chance that the new offences would result in more successful prosecutions, which would result in higher costs.
All cases are indictable	We have made the assumption that all 4 cases are indictable. In reality, some cases could be tried under the lesser offence, which would result in lower costs.
Appeals	Due to a lack of available data, we have not quantified the cost of any appeals. There is a risk that there could be appeals, which could increase costs.
Defendants per case	There is a risk that there could be more than 1 defendant per case.
Legal aid	We assume that all cases go to the Crown Court and that at the Crown Court, all defendants pass the Interest of Justice test and Means tests, making them eligible for legal aid. In reality the costs may be lower, as some defendants could have to contribute towards the legal aid cost of their defence. Average legal aid costs per case could be higher as cases could require interpreters.
Interpreter Costs	These have not been quantified and would be an additional burden to be borne by each CJS agency (e.g. HMCTS, CPS, LSC, and police).
Custodial sentence length	The average custodial sentence length could be lower, or higher, than assumed, which would result in lower/higher costs.
Prison costs	The average time spent in prison could be less, or more, than assumed, which would result in lower/higher costs.
CPS costs	There is a risk that CPS prosecuting costs for cases could be higher as there may be additional cases that go down the criminal route.
Police costs	There is a risk that police costs could be higher or lower depending on the time it takes to read and digest new guidance.

- Criminal law and justice are devolved matters in Scotland and Northern Ireland and this legislation would therefore only apply to England and Wales. However, the relevant departments will be consulted on the impact of these provisions in those regions. The risks highlighted above do not include figures for Scotland or Northern Ireland, which we assume would have a similar effect to that in England and Wales.
- Based on the evidence available, and advice from the industry, it is assumed that the highly specialist printing industry contains 10,000 companies, with an overall annual turnover of between £44.4million and £72.3million. However, the scope of any new legislation could affect more companies than is currently estimated. While this could lead to better crime prevention, it could also lead to more prosecutions than estimated, therefore increasing the costs to the public sector.

G. Enforcement

This legislation would complement existing counter fraud legislation and ensure that people who knowingly, or without taking measures to ensure they are not providing equipment to fraudsters,

supply highly specialist printing equipment for the production of false identity documents can be prosecuted. This would close the legal loophole for culpability.

This complies with the Hampton code in that it has been identified by the police and private sector partners as an area needing regulation; this impact assessment and subsequent consultation will ensure we remain independent of the final decision that is taken; the proposed new legislation complements existing legislation and the proposed wording will be drafted in consultation with the police and private sector partners; regulation puts the onus on businesses to take measures to know their customer, to ensure that the equipment they supply is not being used for illegal purposes – this does not require providing any unnecessary information; this impact assessment fully evaluates the existing systems and seeks to only impose new regulation when and if it has been agreed as being required in order to protect the public and prevent crime.

H. Summary and Recommendations

The table below outlines the costs and benefits of the proposed changes.

Option	Costs	Benefits
2	£4.4million PV	£2.7million PV
	Costs to private sector	Benefits to private sector: Businesses benefit from time savings by having better procedures in place to prevent fraudulent orders.
3	£3.7million PV	£2.7million PV
	Costs to private sector – £0.4million Risk of the new legislation being seen as a burden to industry and putting off new entrants. Costs to public sector – £3.1million Further cases may come to police notice due to the creation of new offences, though this is not quantifiable but would increase public sector costs.	Benefits to private sector: Businesses benefit from time savings by having better procedures in place to prevent fraudulent orders. Potential for positive secondary affect on criminal activity as it is harder for criminals to obtain fraudulent documents, though not quantified.
Source:		

Our preferred option is option 3; creating criminal offences, through primary legislation. The net benefits of option 3 outweigh the net benefits of option 2.

I. Implementation

The earliest date for legislation to receive Royal Assent and then be implemented, with accompanying guidance would be 6 April 2014.

J. Monitoring and Evaluation

We will monitor the policy through feedback from the industry, the police and the CPS. The effectiveness of the new regime is likely to be evaluated 5 years after Royal Assent, i.e. after April 2019.

K. Feedback

We would look to hold a further consultation on the effectiveness of the new legislation after April 2019.