

# FRAUD focus



National Fraud  
Authority

Edition 11: February 2011

## Fraud costs the UK over £38 billion a year

Dr Bernard Herdan, CEO of the National Fraud Authority

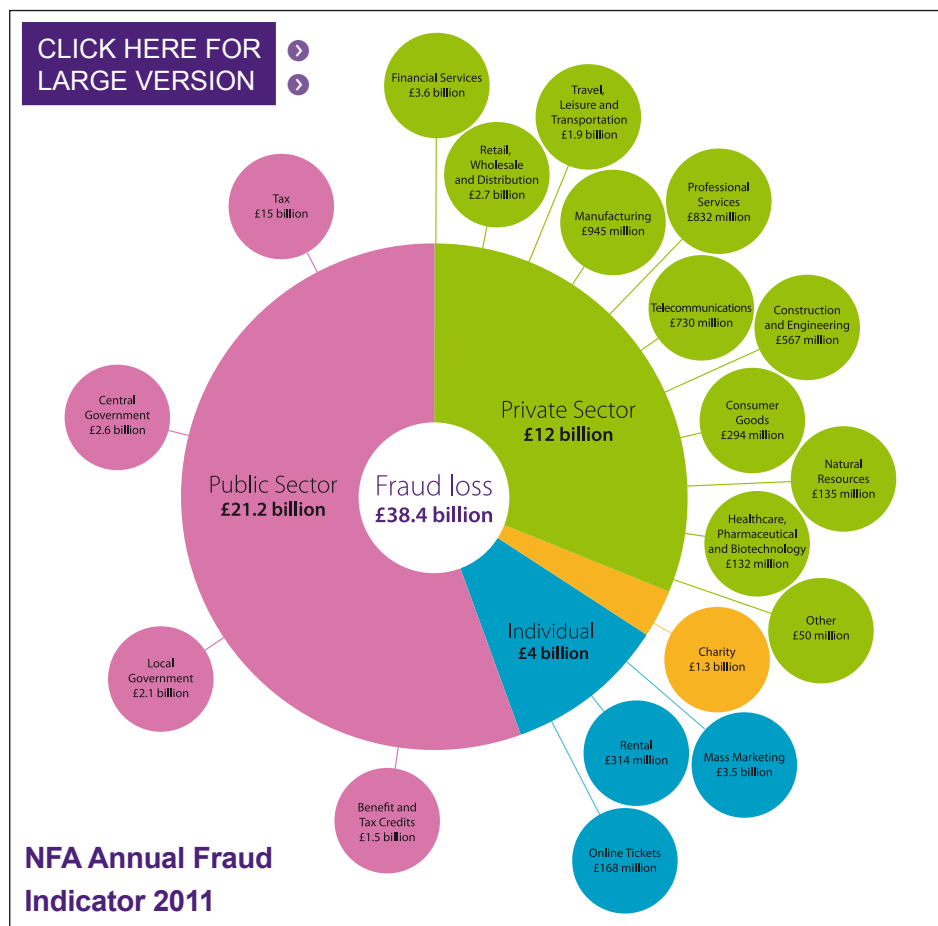
We have been working hard throughout the last 12 months to ensure that the AFI provides a more complete picture of fraud loss in the UK. On 27 January we published our second Annual Fraud Indicator, which estimates that fraud is costing the UK over £38 billion a year.

The new estimate is testament to improved methodologies and cooperation across Government and industry. It provides us with a clear picture of the real impact fraud has on individuals, business and Government.

### First estimate on fraud against charities

Collaboration with the charity sector enabled us for the first time, to provide an accurate estimate of the level of fraud within this sector. We conducted a survey gauging how fraud affects the sector, to which over 1,000 charities responded.

With the information we received we were able to estimate that the charity sector was losing £1.3 billion to fraud. This represents around 2.4% of the total charity sector turnover which is broadly in line with other measures of fraud in both the public and private sectors.



## Contents

- 2 Action Fraud update
- 3 Public sector fraud
- 4 Local Government fraud

# ACTION FRAUD UPDATE

## ►p1 Fraud costs...

We are working closely with the Charity Commission on a number of counter fraud prevention initiatives to encourage charities to build improved fraud prevention measures into their operations and to develop a stronger counter fraud culture in this sector.

### The impact of fraud on SMEs is bigger than we thought


Private sector losses of £12 billion make up 31% of the total annual figure. By working with the Federation of Small Businesses we were able to produce an estimate for fraud against SMEs, the first of its kind, which was £780 million. 26% of all SMEs said that they had been a victim of fraud. We all need to stimulate more initiatives to improve fraud prevention and confidence in this sector.



What is clear is that victims of fraud are found in all sections of society. Whether it is the public, private and charity sectors or as individual

citizens, it is vital that we join together to take action to stem the rising tide of fraud. The Annual Fraud Indicator is our blueprint. It enables us to gain a perspective and judge the scale of the problem and target our actions accordingly.

It is essential that we continue to promote greater fraud awareness and self protection among government, businesses, charities and individual members of public. We need to encourage organisations to adopt fraud proof systems, report fraud when it occurs and we need to continue to facilitate better sharing of intelligence on fraudsters.

I would like to thank you for all your continued help and support in our efforts to do this. 

### Fraud against individuals

Fraudsters are scamming individuals living in the UK out of £4 billion a year. Intelligence from Action Fraud has helped us gain a far more accurate picture of fraud against individuals.

Action Fraud saw over 70,000 contacts made by the public and 10,000 crimes reported. In total, individuals reported they had lost £93 million over the past 12 months to fraudsters, with a median loss of £500 each, however some individual frauds exceeded £1m.

Reports to Action Fraud are also passed on to the National Fraud Intelligence Bureau giving the police essential intelligence needed to investigate fraudsters. There have been a number of arrests as a result of the information Action Fraud has received.

Online fraud is consistently the most common type of fraud being reported to Action Fraud, averaging at 44% of all reports of fraud that it takes. Online fraud covers anything from buying items which never existed, to online dating and lottery scams. Action Fraud appears first out of 97 million results for "report fraud" and second out of 80 million results for "fraud" in Google.

### Scams awareness month

February is Scams Awareness Month. Research commissioned by the Office

of Fair Trading (OFT) shows just how important it is to raise awareness of mass marketing scams.

It found that one in every 20 people lost money to a scam last year alone. Of these, 61% said that the realistic nature of the scams was the top reason that they fell for them.

Action Fraud is supporting scams awareness month by calling on visitors to its website to bin scam mailings being sent to them in 'Scamnesty' bins which have been located across the country by the OFT.


The NFIB will then be analysing the mail deposited in the bins to enable crucial intelligence to be gathered and see what preventative activity can be taken. This activity will seek to close down enablers to fraud and sever the communication links between fraudster and victim.

There is already work to be undertaken by enforcement and regulatory agencies which have designed new protocols to revoke bulk mailing licenses and share intelligence within the industry. For example, the Metropolitan Police Service recently worked with Royal Mail and Spring Global to identify and seize a large consignment of MMF mail bound for the UK.

### Over £2.5 million reported romance fraud

Perpetrators of romance scams target users of internet dating sites by feigning romantic interest, securing trust and affection through regular intimate conversations and exchanges of gifts, and then exploiting the relationship to obtain money. In the six months between August 2010 and January 2011 Action Fraud received reports of

over £2.5 million of payments sent to romance fraudsters.

We used this figure to raise awareness on Valentines Day when some people were increasing their efforts to look for romance and so are particularly vulnerable. 



# Tackling fraud within the public sector

With the latest Annual Fraud Indicator estimating that 55% of all UK fraud – £21 billion a year – is committed against the public sector, we wanted to update you on the work being done to address fraud in this sector.

Fraud is not just a problem for departments administering benefits and revenues although this has been well publicised. It is a direct challenge to all government departments and Arm's Length Bodies. We have been working closely with the Cabinet Office to lead the fight against fraud in every government department. Here are some examples of how this has been happening:

## Counter Fraud Taskforce

The Minister of the Cabinet Office, Frances Maude MP established a Counter Fraud Taskforce in October 2010 to analyse successful approaches to combat fraud and error across all of Government. Taskforce members include senior officials from DWP, HMRC, Dept of Health, HM Treasury, City of London Police, NFA, Cabinet Office and private sector representatives from HSBC, Citi Group and Royal Bank of Scotland.

The Taskforce is currently overseeing a series of pilots in different Government departments to capitalise quickly and aggressively on existing good practice and promote innovative ways to tackle fraud and error. The Taskforce is also addressing such cross-Government issues such as information and intelligence sharing and better measurement of fraud, error and debt. This work will report in May with recommendations on actions to be taken forward across Government.

Area	Total fraud loss	Fraud type	Fraud loss
Tax	£15 billion	Tax fraud	£15 billion
		Vehicle excise fraud	£46 million
Central government	£2.6 billion	Procurement fraud	£1.5 billion
		Grant fraud	£472 million
		Television licence fee evasion	£196 million
		Payroll and recruitment fraud	£177 million
		NHS patient charges fraud	£165 million
		Student finance fraud	£31 million
		Pension fraud	£7 million
		National Savings & Investments fraud	£0.39 million
Local government	£2.1 billion	Housing tenancy fraud	£900 million
		Procurement fraud	£855 million
		Payroll and recruitment fraud	£152 million
		Council tax fraud	£90 million
		Blue Badge Scheme misuse	£46 million
		Grant fraud	£43 million
		Pension fraud	£8 million
Benefit & tax credits	£1.5 billion	Benefit fraud	£1.0 billion
		Tax Credits fraud	£460 million

## The Counter Fraud Taskforce pilots

The seven pilots are testing new technologies, trialling the more efficient use of credit reference agency information and data analytics, and using the insights from behavioural science to improve how we combat fraud.

The pilots are wide ranging:

- 1 Procurement fraud** — DfT is using data analytics to detect overpayments made to contractors.
- 2 Insider-enabled fraud** — UKBA is employing sophisticated behavioural and network analysis to identify potentially corrupt employees.
- 3 Grant fraud** — The Big Lottery Fund is using data analytics to prevent and stop organised crime targeting grants.
- 4 Benefit fraud** — HMRC and DWP are undertaking a joint exercise with credit reference agencies to detect tax credits for those who wrongly claim to be living alone.
- 5 Tax fraud** — HMRC is analysing calls to its whistleblowing hotline to elicit more information. HMRC is also using behavioural insights to text 35,000 people who paid their tax late last year to remind them to pay the right amount promptly this year.
- 6 Electoral fraud** — Cabinet Office is improving identity authentication for electoral registrations.
- 7 Fraud alerts system** — NFA is learning from the NHS Counter Fraud Service alerts model to develop a version for central Government.

## Tackling fraud within the public sector


### Counter Fraud Champions

In January 2011, a network of Counter Fraud Champions (CFC) was established, drawn from every department to help strengthen the fight against fraud in the public sector. The CFCs will take forward ways to tackle fraud and error in their own departments and in the Arm's Length Bodies for which the department has responsibility.

They will work collaboratively to progress the Taskforce's recommendations and will:

- Promote a counter-fraud culture and engage employees in combating fraud and error
- Measure and report on fraud, error and debt
- Assess fraud risk, identify the areas most vulnerable to fraud,

and fraud proof new policies and systems

- Share good practice to combat fraud
- Use a new government fraud alerts system which NFA is developing, creating alerts from fraud risk assessments and taking action against fraud alerts they receive 

### HMRC saves £1million

One of the pilots has already reported early success.

HMRC wanted to identify people in receipt of tax credits who were wrongly claiming to be living alone. It sent 20,000 cases to be analysed

by credit reference agencies. 1,000 were identified as high risk.

Letters were sent to 750 of these 'high risk' claimants to inform them they were suspected of living with a partner, which generated a 78% response rate. More than half of these have now had their tax credit stopped

or amended, which has saved £1 million of taxpayers' money.

Crucially, this loss would have increased year on year if it had not been identified and addressed. If rolled out nationally, this exercise could save £500m—£1billion over the next 18 months.

## Supporting victims of fraud

In 2009 research funded by ACPO revealed that victims of fraud received neither the recognition they deserved from the criminal justice system nor the service they required to meet their needs. In response, over the last 12 months, we have been working with Victim Support and a range of other organisations to develop and deliver enhanced support for victims of fraud.

The work has proved to be an excellent example of the success that can be achieved when agencies collaborate.

On 16 February we hosted an event in London to provide an overview of the project. Delegates were able to hear first hand from a victim of a romance fraud and the impact it had had on her life. We also unveiled a practitioner's e-Learning toolkit, jointly developed with Victim Support, which is aimed at providing their

staff and volunteers with a greater understanding of fraud and its impacts.

Research is now underway to understand victim's and non-victim's behaviour and attitudes to fraud to understand victim behaviour and identify what makes an individual

susceptible to fraud. The findings from this ground breaking research will be crucial in helping the counter fraud community to help design interventions to prevent a victim falling foul of fraudsters in the first place. We look forward to updating you on our work in this area in the future. 