



**National Fraud
Authority**

Annual fraud indicator

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Foreword

Dr Bernard Herdan, NFA Chief Executive

The NFA estimates that in 2008 alone, fraud cost the UK £30 billion. On average, it costs every adult member of the population £621 per year – both through direct impacts of frauds and recovered indirectly through taxation and the increased costs of products and services. This is a staggering figure which gives the UK its first comprehensive picture of the devastating consequences fraud has on the UK economy.



Dr Bernard Herdan
Chief Executive

Although the figure is significant in its own right, providing an unmistakable indicator of how serious an issue fraud is for the UK, it serves a wider purpose. It enables the counter-fraud community, guided by the National Fraud Strategy, to better target its approach to tackling fraud. It provides signposting to fraud trends and hotspots and establishes a benchmark to measure success. It also provides the impetus to encourage industry and Government to invest the necessary levels of resource required to combat a crime that deeply affects the public and private sectors and individuals.

I would like to take this opportunity to thank those of you who have assisted the NFA in completing our inaugural fraud measurement exercise. The NFA relies heavily on the work of its stakeholders and the wider counter-fraud community to quantify the impact fraud has on its victims. It is due to this support received from stakeholders, that the NFA is able to publish the most reliable and comprehensive UK fraud loss estimate to date.

However, I also recognise that while it gives the best picture possible, our estimate is some way from perfect. In some sectors the information we have been able to collect has been incomplete, in others there is no information at all. We plan to produce an annual report of this type and, with the help of all our stakeholders, we will be aiming to achieve ever increased cover and accuracy.

A handwritten signature in purple ink, appearing to read 'Bernard Herdan', with a stylized flourish underneath.

Dr Bernard Herdan CB
Chief Executive

Introduction

Professor Michael Levi, Cardiff University
ESRC Professorial Fellow in Criminology

In 2006, before the financial tide went out to reveal some of the misconduct that lay beneath the surface, the Association of Chief Police Officers' Economic Crime Portfolio – led by City of London Commissioner Mike Bowron – commissioned me and my colleagues to review what was reliably known about the costs of economic crimes in the UK.

We concluded that on the basis of good quality existing data drawn from private and public sector bodies and from survey research on individuals and corporations, a minimum figure for the direct costs of fraud was almost £13 billion. At that time, good quality data was available only intermittently and not for many areas of fraud.

Since our report was published, the government has created the National Fraud Authority, which aims to expand the range and quality of cost of fraud data in order to help target more rationally what frauds to combat and to help us evaluate the impact of public and private measures taken against frauds. This report maps the significant progress it and contributing bodies have made in analysing the effects of fraud on the UK.

Measurement is only the beginning. The process of analysis should stimulate us to reflect on what we can do about our vulnerabilities, and what we need from ourselves and from others to tackle them better. In this climate of spending cuts, there is a risk that we may lose sight of the harm that frauds can do and the importance of both individual and collective effort in reducing them. Any combat strategy requires a decent map of the battlefield. There will always be areas of ambiguity and dangers that have been deliberately hidden from view, which we recognise only when they have injured us. In light of this, the NFA should be applauded for its initial efforts at improving the way fraud damage is perceived and mapped in the UK.

Summary

Summary

It has now been three years since the Association of Chief Police Officers published a conservative fraud loss estimate of £13 billion. While this estimate made some progress towards producing a centralised picture of the direct financial impact fraud has on its victims, the figure inevitably underestimated the true financial cost of fraud. This year, the NFA set up a fraud measurement unit to deliver the first fraud loss measure, which more accurately reflects the impact that fraud has on the UK. This report presents the NFA's findings which form this latest fraud estimate for the UK.

Drawing on publicly available sources, the NFA estimates that fraud cost the UK economy £30.5 billion during 2008. Estimates submitted by each contributor to this figure use different definitions, methodologies and have different coverage, so caution should be taken when comparing these figures. However, these estimates suggest that public sector losses accounted for 58 per cent of all fraud loss, with estimated fraud losses of £17.6 billion for the public sector alone. While public sector losses represented a significant proportion of the overall fraud measure, these losses should be seen in the context of more mature and sophisticated measurement processes and a greater willingness to share this data for inclusion in the NFA's first annual fraud indicator.

Fraud in the Financial Services industry is estimated at £3.8 billion, which made it the highest losing industry in the private sector; followed by the consumer goods industry (£1.3 billion) and the manufacturing industry (£1 billion). Individual fraud losses accounted for losses of £3.5 billion, although this figure is limited only to mass-marketing fraud and does not include other types of fraud against individuals. An estimate of £32 million was calculated by the NFA for the charity and voluntary sector, however, this estimate is likely to significantly underestimate charity fraud.

Some caution must be taken when using the fraud estimates provided in this publication. Fraud is difficult to measure as much goes undetected, which means some of the fraud loss figures provided to the NFA by relevant organisations only reflect fraud that has been reported. As a result, the fraud figure underestimates the total financial loss resulting from fraud.

This report improves knowledge about financial losses resulting from fraud and identifies those areas that cause most financial harm to the UK. However, there is still much to be done in terms of improving the reporting mechanisms of fraud and developing more sophisticated fraud measurement methodologies. Fraud is difficult to expose and therefore difficult to measure. Over the coming years, the NFA will be working with both the public and the private sectors to help organisations better measure reported and unknown fraud losses.

As the next step on the road to discovering the true fraud picture in the UK, the NFA has received support from organisations who are willing and able to critically assess themselves and identify their exposure to fraud loss. The objective for the coming years will be to encourage the rest of the UK to join in this exercise so that a better picture of fraud can be built, year on year, mapping the true extent of this crime.

Summary

Figure 1
Breakdown of fraud losses



Due to rounding, the components of figure one may not sum to their respective totals.

Background

Background

Why measure fraud?

In order to support a national strategy for dealing with fraud it is necessary to measure the scale of the problem and identify those areas that cause most harm to the UK economy. Fraud measurement should not just be seen in the context of providing a 'big number' relating to the cost of fraud on the UK economy. While it is useful to know the overall cost of fraud, the focus on fraud measurement must be on analysing the losses at a more granular level to highlight key threat areas and to benchmark success.

Based on an evaluation of current fraud measurement practices, the NFA has identified four key purposes of fraud measurement:

- **Targeting of counter-fraud activity:** fraud estimates should be used to target future counter-fraud activity and identify those areas that cause greatest harm. Identifying fraud losses is also useful in determining the levels of resources needed to tackle fraud effectively
- **Measuring the effectiveness of counter-fraud activity:** to measure the success of counter-fraud activity it is necessary to measure before and after counter-fraud activity to determine its effect on the levels of fraud
- **Advocacy for counter-fraud activity:** fraud measurement can help raise the profile of fraud-related issues in an organisation
- **Accounting and audit:** organisations should know the level of fraud within their organisation in order to give a true and fair view of their finances

Fraud measurement plays an important role in identifying areas of fraud that require action. Fraud loss data collated by the NFA must be seen in the context of a wider fraud prioritisation mechanism. The NFA Fraud Dashboard provides a strategic process that enables the NFA to identify those areas of fraud that cause most harm to the UK economy. By feeding fraud losses into a prioritisation mechanism, the NFA is able to review those areas that cause greatest financial loss to the UK economy alongside victim impact, social harm, tractability and links to other criminal activity.

A more accurate measure of fraud will help to highlight the need for greater resources towards tackling fraud and higher prioritisation. The Fraud Review acknowledged the need for fraud to be measured on a consistent basis across the UK economy, yet the success of the NFA's fraud measurement programme is dependent on organisations voluntarily quantifying and measuring their own fraud exposure, including quantifying the unknown. Improving the accuracy and usefulness of a central fraud measure depends on organisations understanding the importance and benefits of measuring their own fraud losses. The NFA will continue to carry out advocacy work with organisations throughout 2010-11 to encourage better estimation of fraud losses.

Background

How has this fraud loss estimate been calculated?

The NFA's fraud loss estimate has been produced using data provided by a number of private and public sector organisations, many of whom collate this information on behalf of victim organisations. Because of this, the NFA has been able to produce a fraud estimate that has a much wider coverage of losses than has previously been achieved.

Figures included in this estimate are taken from fraud losses identified during 2008. Fraud loss figures taken from previous years have been included in this measurement in cases where data was not available for 2008. The majority of fraud loss figures used in this calculation are based on data taken from 2008 or the 2008-09 financial year.

When collecting fraud loss data from stakeholders, the NFA did not provide data holders with a definition of fraud. It was acknowledged that for the first iteration of this exercise, the majority of estimates collated would already have been produced using existing definitions of fraud. Instead, the NFA asked organisations how they defined fraud for the purpose of measuring it, so that any significant discrepancies in the way in which fraud was defined could be highlighted and adjustments made.

Some data provided was excluded from this fraud measure, as it was not possible to identify the proportion of loss resulting from fraudulent activity.

The measurement does not take into account the costs of preventing and responding to fraud, nor does it attempt to quantify the indirect financial costs of fraud, such as changes in behaviour resulting from the threat of fraud. If these additional costs were to be included in this fraud measure, the real cost of fraud to the UK economy would inevitably be much higher.

The estimate draws from a variety of data sources, each using different methodologies to estimate fraud. The quality and reliability of fraud loss estimates used in this measurement varies significantly and, as such, the NFA's first fraud loss measure provides only an indication of likely loss.

Caution must be taken when using and interpreting the figures provided in this publication, particularly when drawing comparisons between different fraud loss estimates.

NFA fraud estimates

Because of the difficulties in measuring fraud across all sectors of the UK, a balance must be struck between accuracy and comprehensiveness. In order to ensure this fraud measure is more comprehensive than previous centralised estimates, the NFA has calculated its figures using targeted measurement exercises and expert estimates to fill significant gaps where data was unavailable. These additional fraud estimates have been included in the centralised estimate of £30.5 billion.

There are four key areas where the NFA has produced estimates to supplement fraud loss data provided by stakeholders, covering corporate fraud, mortgage fraud, charity fraud and fraud in local Government. These are all areas where further work is needed to improve the quality and availability of fraud estimates. However, these interim estimates ensure that areas that have been missing in previous centralised fraud measures are now included. Further details on how these estimates have been calculated are provided in this publication.

Background

Comparison with other fraud estimates

In 2009, KPMG reported that fraud cases worth over £1.1 billion came to UK courts in 2008, the highest level recorded since 1995. BDO also announced that in the same year, reported fraud losses amounted to £1.2 billion. While these measures of fraud are useful to identify trends in frauds over time, neither measurement takes into account undiscovered and unreported fraud. By its very nature, fraud often goes undiscovered, therefore these two measures are unlikely to indicate the real costs of fraud.

Few other attempts have been made to quantify the financial impact of fraud. The most significant study over the last five years was published by ACPO in 2007, which identified direct fraud losses of £13 billion during 2005 – a figure significantly different to this study's estimate of £30.5 billion.

However comparison with this should be avoided as the approach taken, and the figures incorporated into each estimate, vary significantly for the following reasons:

- The ACPO fraud measure did not seek to obtain estimates where fraud loss figures were missing or of quality too poor to include. The NFA measurement includes figures published since 2007.
- The ACPO study reviewed only those sources of fraud loss data that were available in the public domain. This measure has been able to include figures from sources which have not previously been made available to the public.
- There are some fraud loss figures used in the ACPO estimate that were excluded from this updated fraud measure. The findings of surveys such as the PricewaterhouseCoopers (PWC) UK economic survey and BDO FraudTrack have not been used in this fraud measure so as not to 'double count' some fraud losses.
- The ACPO fraud measure took a more conservative approach in quantifying fraud losses than this fraud measure and in some cases used the lower estimate of each fraud figure. For this 2008 fraud measure, the mid-point has been used when calculating the overall fraud loss, as mid-point estimates are likely to be more indicative of actual fraud losses.

Public Sector fraud

Public Sector fraud

Tax fraud

HM Revenue and Customs (HMRC) is responsible for making sure that money is available to fund the UK's public services as well as helping families and individuals with targeted financial support. They are responsible for collecting direct and indirect taxes and administering child benefit, child trust fund and tax credits. In 2007-08 total taxes and duties collected were £439 billion.

The Government is committed to ensuring the tax system operates fairly and effectively. HMRC has developed a comprehensive risk based compliance strategy in accordance with international best practice. The yield from compliance interventions has increased from £7.5 billion in 2005-06 to £12 billion in 2008-09. A key element of the strategy is tackling non-compliance through effective identification practices, and the use of civil and criminal sanctions. For example, information obtained from the high street banks underpinned the first Offshore Disclosure Facility (ODF), which brought in £450 million in tax from undeclared offshore assets. See Protecting Tax Revenues 2009 for an in depth description of the strategy and the actions being taken.

On 9 December 2009 HMRC published for the first time an estimate of the overall tax gap¹ – the difference between the amount of tax that is due and the amount that is collected. HMRC also published, at the Pre-Budget Report 2009, a document setting out the overall estimate together with a breakdown of the underlying behaviours that drive the tax gap and a description of the comprehensive set of actions being taken to reduce the tax gap².

The size of the UK tax gap is estimated to be around £40 billion in 2007-08. This is a net figure after accounting for HMRC's compliance activities, which reduced the tax gap by over 20 per cent. The net tax gap represents around 8 per cent of the total tax, which in HMRC's view should be collected, and compares favourably to estimates produced by other countries.

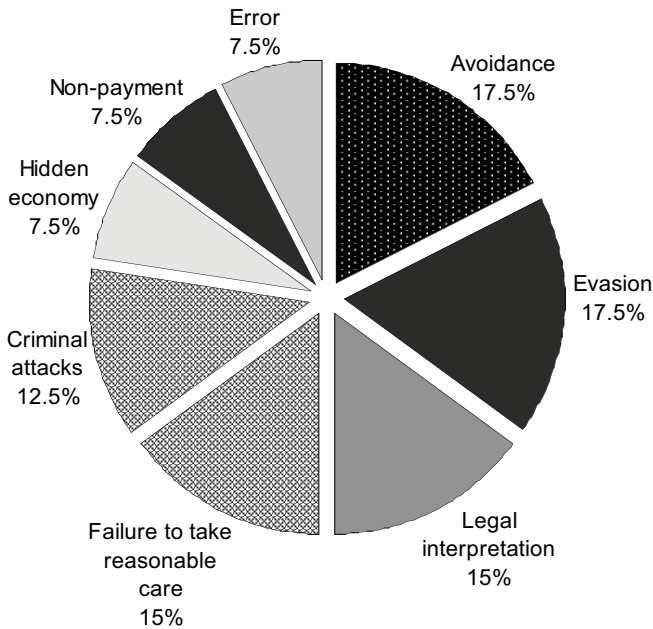
The tax gap is driven by a wide range of behaviours, from simple error and failure to take reasonable care to evasion and criminal attacks. Analysis of the underlying behaviours that drive the tax gap is useful as by identifying these behaviours HMRC can most effectively develop a targeted approach, prioritising operational responses and identifying where policy solutions are required.

¹ Measuring Tax Gaps 2009 downloadable from <http://www.hmrc.gov.uk/stats/measuring-tax-gaps.pdf>

² Protecting Tax Revenues 2009 downloadable from <http://www.hmrc.gov.uk/pbr2009/protect-tax-revenue-5450.pdf>

Public Sector fraud

Figure 2
The behaviours driving the UK net tax gap in 2007-08³



For the purposes of this document it is assumed that the categories of 'evasion', 'hidden economy' and 'criminal attacks' equate to fraud. These behaviours account for around 37.5 per cent of the tax gap. Applying this percentage to the total tax gap provides an estimate of £15 billion for tax fraud in 2007/08. This represents around 3.5 per cent of total tax receipts and 3 per cent of the total tax which in HMRC's view should be collected.

Tax credits fraud

HMRC estimates that tax credits fraud cost between £100 million to £200 million during 2007-08. Fraud losses of £100 million to £200 million accounted for 0.75 per cent of tax credits payments (with HMRC processing payments of £20 billion during 2007-08).

Vehicle excise duty evasion

Vehicle excise duty evasion figures have also been included within the tax fraud category although vehicle duties are processed by the Driver and Vehicle Licensing Agency. The Department for Transport produces annual estimates relating to vehicle excise duties, calculated by using extrapolations against the outcome of 1.5 million vehicle license checks carried out throughout the UK. The Department for Transport estimates that £49 million was lost during 2008-09 as a result of vehicle license evasion, in England, Scotland and Wales.

The latest survey results published in December 2009, which were not included in this fraud measurement, show a decrease, with vehicle licence evasion estimated at £34 million.

³ HMRC is not able to produce robust statistical elements of the split of the tax gap by behaviour. The analysis in figure 2 is based on management assumptions and judgement, and therefore should not be regarded as Official Statistics. As better information becomes available these proportions may alter, although experience indicates that this picture is broadly correct.

Public Sector fraud

Benefit fraud

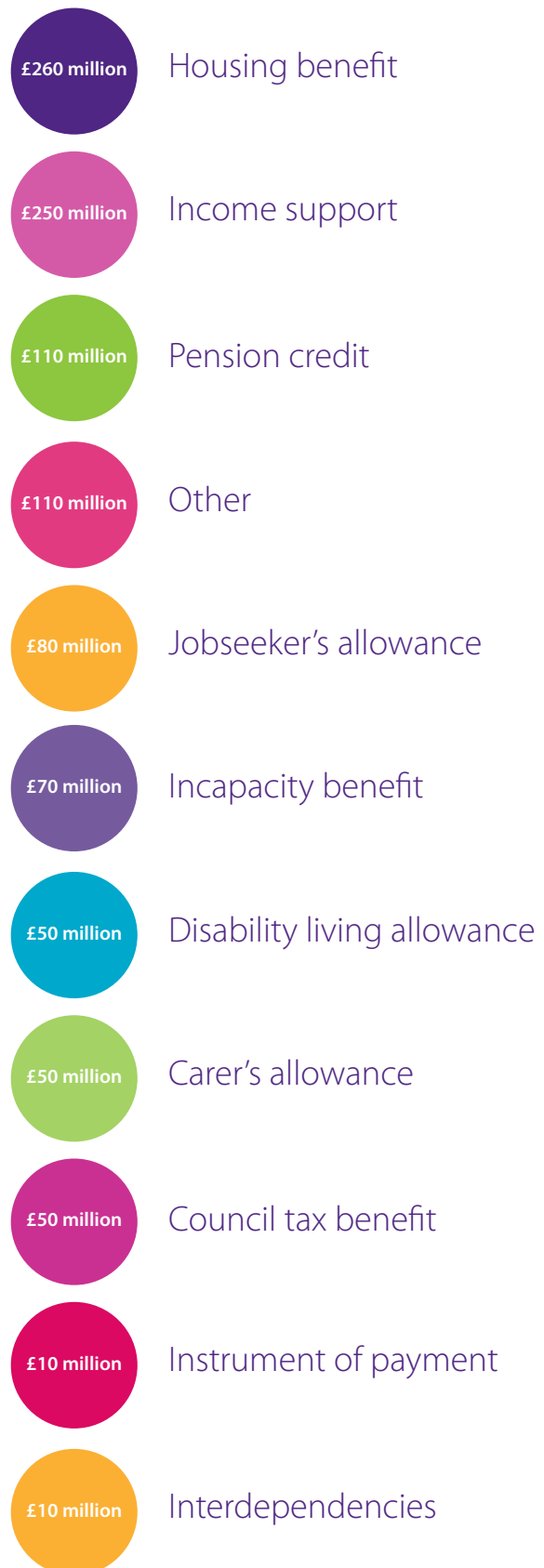
The Department for Work and Pensions (DWP) provides estimates of fraud and error for benefits administered by DWP and Local Authorities. These estimates are published twice a year and are overseen and subject to the rules governed by National Statistics protocols and publications.

Over 30 per cent of all benefit expenditure is measured on a continuous basis, including income support, jobseeker’s allowance, pension credit, incapacity benefit and housing benefit. DWP also carry out one-off ‘snapshot’ measurement exercises (‘National Benefit Reviews’), for over 50 per cent of the remaining benefits, which estimate the level of fraud and error over a single year for those benefit areas following the same process as those measured on a continuous basis. The remaining benefits are not subject to specific review. For these benefits the estimates are based on comparable measured benefits.

In 2008-09, the DWP reported fraud losses of £1.1 billion, an estimated increase of £200 million from the previous estimate. The estimated fraud loss figure of £1.1 billion represents 0.8 per cent of £136 billion worth of benefit expenditure. In previous years, income support has represented the largest area of loss; however during 2008-09 housing benefit fraud increased by £50 million, from £210 million to £260 million, and is now the largest area of loss within the benefits system. Income support, jobseeker’s allowance and pension credit all increased from the last estimate. This latest rise in estimates should be seen in the context of the acknowledged risk of fraud increasing in an economic downturn. Overall the estimated fraud loss by DWP has reduced by half since 2000-01, whilst expenditure has increased by 35 percent.

The DWP’s fraud measurement programme calculates all areas of benefit expenditure including unknown and undetected fraud losses. This means that benefit fraud figures included in the NFA fraud estimate provide a fairly reliable indication of fraud losses across the benefit system.

Figure 3
Benefit fraud estimated losses in 2008-09



Public Sector fraud

Local Government fraud

There are 348 Local Authorities in England and Wales, each responsible for countering fraud and adopting good practice in managing the risk of fraud. Unlike central Government, there are minimal requirements for Local Authorities to report fraud to a central organisation. As a result, there were no central estimates available for this fraud loss estimate with the exception of single person discount council tax fraud.

In order to ensure that Local Authority fraud losses are represented in the NFA fraud loss figure, the estimate of Local Authority fraud across England and Wales has been calculated based on reported fraud cases made by 24 London borough councils. The NFA has also estimated housing tenancy fraud, based on information provided by the Audit Commission in their September 2009 publication 'Protecting the Public Purse'. Fraud reported by Scottish Local Authorities for 2007-08 was provided by Audit Scotland and these figures have been added to the extrapolated figures for England and Wales.

It is estimated that Local Authorities lose £684 million a year as a result of fraud. This figure excludes any losses resulting from benefit fraud as these losses have been captured within fraud loss data provided by the DWP.

Figure 4
Summary of Local Authority fraud



Housing tenancy fraud

Housing tenancy fraud is the use of social housing by someone who is not entitled to occupy that home. It includes people who submit false housing applications, illegal sub letting and tenancy succession fraud. Housing tenancy fraud is a growing problem for Local Authorities – particularly authorities in metropolitan areas where demand for social housing is high. There are around 3.8 million social housing properties in England, available to families and individuals who cannot access suitable accommodation from the private sector. Illegal occupation of social housing has a direct financial impact on Local Authorities as they are responsible for providing and paying for temporary accommodation for those who cannot be housed in permanent social housing. The cost of housing families and individuals in temporary housing can be significant, particularly in high cost areas such as London.

Public Sector fraud

The Audit Commission’s publication ‘Protecting the Public Purse’, estimates that 50,000 properties are unlawfully occupied in England. They also provide an average cost of £11,000 to house a family or individual in temporary housing. Multiplying this average cost of temporary housing with the number of properties unlawfully occupied (which would otherwise be available for occupation) the NFA estimates that housing tenancy cost Local Authorities in England around £550 million in 2008. Unofficial estimates suggest that there may be as many as 200,000 properties unlawfully occupied; suggesting that housing tenancy fraud loss in England may be much higher than £550 million.

Single person discount council tax fraud

Local Authorities collect around £25 billion each year in council tax in England alone. Householders where there are no other residents aged 18 or over living at an address, are eligible for a 25 per cent discount on the amount of council tax to be paid (known as single person discount). The level of single person discount council tax fraud varies from 1 per cent to 11 per cent with most fraud rates clustered between 4 and 6 per cent of single person discount claims. Assuming a conservative estimate of 4 per cent, the Audit Commission estimates that Local Authorities in England lose around £90 million each year as a result of single person discount council tax fraud.

Other Local Authority fraud

Housing tenancy fraud is a key area of fraud loss for Local Authorities, as is single person discount council tax fraud. However, Local Authorities are vulnerable to many other types of fraud, similar to fraud losses reported by central Government departments. Unfortunately, fraud estimates were not available for other forms of Local Authority fraud. With Local Authorities in England alone spending around £150 billion per year, fraud loss is likely to be relatively high. Even a conservative estimate of 0.5 per cent of spending being lost to fraud would result in losses of £750 million each year.

The NFA has produced an estimate of Local Authority fraud, based on a one-off snap-shot exercise looking at reported fraud losses across London Local Authorities. The findings of this exercise have been extrapolated to provide an estimate of Local Authority fraud losses for England and Wales.

Reported fraud amounts relating to housing tenancy, single person discount council tax and benefit fraud were excluded from this extrapolation to reduce overlap with the fraud already quantified by the NFA, Audit Commission and the DWP. Values of reported losses by Scottish Local Authorities in 2007-08 were combined with these estimates to produce a national figure.

Figure 5
Breakdown of Local Authority fraud

(Excluding housing tenancy fraud and single person discount council tax fraud)

Type of fraud	Fraud loss
Public Liability Insurance fund fraud	£17.7 million
Blue Badge Scheme abuse	£14.3 million
Personnel management related	£4.3 million
Uncategorised	£2.8 million
Theft of assets or funds	£1.7 million
Exploiting assets and Information	£1.1 million
Grants and bursary fraud	£0.9 million
Payroll and allowances	£0.8 million
Direct payments fraud	£0.3 million
Total	£43.9 million

While the NFA estimate provides an indication of the scale of the problem, the fraud losses identified by the 24 London Local Authorities who provided reported fraud losses for 2008-09 are not necessarily indicative of losses suffered by Local Authorities outside of Greater London. This figure is also only based on reported fraud losses. While Local Authorities have made significant progress in identifying and quantifying fraud losses it is likely that much of the fraud suffered by them remains undetected.

Public Sector fraud

Central Government fraud

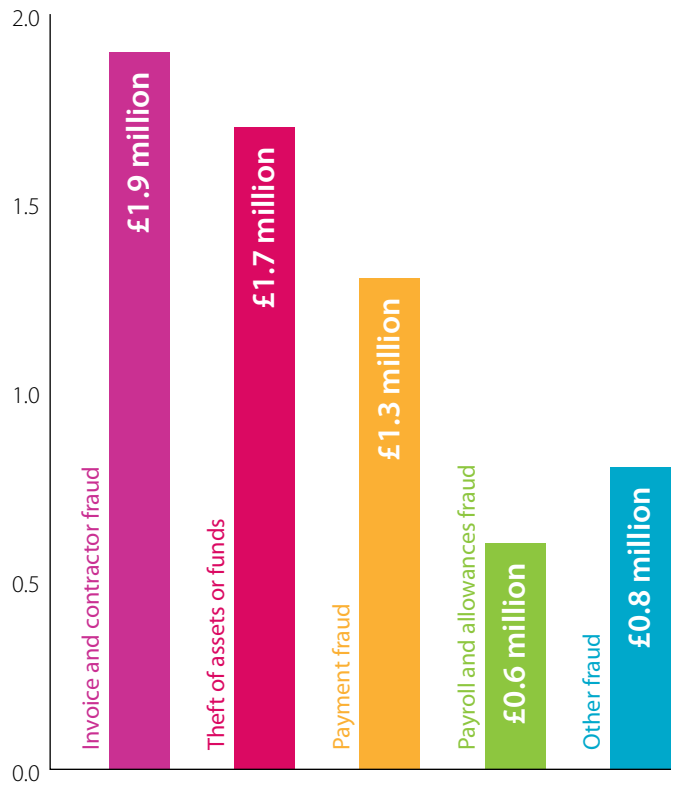
Central Government fraud loss data has been provided by HM Treasury, Audit Scotland, National Savings and Investments, Ministry of Defence Police, Department for Business, Innovation and Skills and the BBC. Based on fraud loss data provided by these organisations, it is estimated that fraud in central Government amounted to £356 million during 2008.

With the exception of fraud losses measured within the NHS and the benefit and tax systems, few areas of central Government spending have been reviewed to quantify known and unknown losses. Measurement of internal fraud within central Government spending has been limited to 'reported' fraud only, which limits the usefulness of these figures in terms of trying to quantify the fraud exposure of central Government departments. Few estimates exist for external fraud, however, they have been included in the NFA figure when available.

Central Governmental departments

HM Treasury publish an annual survey which analyses data about fraud and theft perpetrated by staff. The survey includes returns of reported fraud from 45 central Government bodies. It also includes case studies of external fraud where losses of over £20,000 were recorded. During 2008-09 there were 1,320 cases of internal fraud reported with a total value of £4.2 million. An additional 11 large value cases of invoice and contractor fraud were reported, valued at over £1.9 million. Internal fraud estimates provided by Audit Scotland have been added to the fraud loss figures provided by HM Treasury.

Figure 6
Central Government reported fraud losses



This table includes fraud losses reported to Audit Scotland and HM Treasury.

In addition to procurement fraud cases reported to HM Treasury, the Ministry of Defence Police (MDP) provided the NFA with an 'at risk' estimate of procurement fraud within their defence budget. The MDP acknowledges a potential 'at risk' figure of 1 per cent to 5 per cent of annual procurement spend. This estimate has been incorporated into the NFA fraud measure. Procurement fraud cases reported by the MoD to HM Treasury have been excluded from the analysis to prevent double counting.

Public Sector fraud

Pension fraud losses have also been included in the NFA fraud measure and are estimated to cost the public sector £64 million. This figure incorporates losses across the NHS, local Government and central Government and is based on data obtained from the 2008-09 National Fraud Initiative. It is not possible to breakdown this fraud loss value by pension area, therefore, these losses have been categorised in their own category alongside tax, benefits, NHS, local Government and central Government fraud losses.

Television licence fee evasion

Losses resulting from licence fee evasion are calculated by comparing theoretical licence fee income with actual amount collected by the BBC. During 2008-09, the BBC has estimated that £195 million (5.3 per cent evasion rate) was lost as a result of licence fee evasion. These losses resulting from television licence fee evasion have been classified as a loss to the BBC and central Government for the purpose of this fraud estimate.

National Savings and Investments fraud

National Savings and Investments (NS&I) is an Executive Agency of the Chancellor of the Exchequer. During 2008-09, NS&I reported losses of £355,000 resulting from fraudulently altered warrants, debit card fraud and account takeover.

NHS fraud

Fraud within the NHS can be perpetrated by patients or by those with access to NHS resources such as staff, healthcare professionals, contractors or suppliers. With over 420 NHS organisations in England alone, and with a budget of £94 billion per year, the potential for fraud clearly exists.

In England and Wales, responsibility for countering fraud in the NHS lies with the NHS Counter Fraud Service (NHS CFS). The NHS CFS is responsible for policy and operational matters relating to the prevention, detection and investigation of fraud in the NHS. Fraud measurement is a key part of NHS CFS work and regular measurement exercises are carried out by the Risk Measurement Unit (RMU) of the NHS CFS, focusing on areas of high risk or large spend.

Since 1999 the RMU has carried out exercises measuring fraud in areas such as patient services, contractor claims and procurement. The fraud loss estimates derived from these exercises have been included in the NFA fraud estimate along with the value of fraud cases identified from closed cases during 2007-08. In Northern Ireland, the NHS Counter Fraud Unit measures patient charge evasion in prescription, dental and optical services. These estimates have also been included in the overall fraud measure, along with reported fraud losses collated by Audit Scotland.

Based on fraud loss data provided by the NHS CFS, Audit Scotland and NHS Counter Fraud Unit Northern Ireland, fraud in the NHS is estimated to have cost £263 million during 2008.

Public Sector fraud

Patient charge evasion fraud

NHS fraud can occur when patients falsely seek exemption from NHS charges or falsely claim entitlement to free services. In total, patient charge evasion fraud is estimated to cost the UK £165 million a year, although this figure does not include fraud figures for Scotland. In England alone, the NHS CFS estimate that £155 million was lost as a result of patient charge evasion during 2007-08; an increase of almost £79 million in the level of these losses since previous exercises.

NHS contractor fraud

The NHS CFS measures contractor fraud by healthcare professionals. The NHS CFS provided the NFA with an estimate of £8.5 million for dental contractor fraud for exercises carried out in England (2003-04) and in Wales (2006-07). This figure has been included in the NFA's fraud loss estimate.

Procurement fraud

The NHS CFS is one of the few counter fraud agencies to have attempted to quantify financial losses resulting from procurement fraud. The exercise proved challenging due to the nature of procurement fraud. As a result, the NHS CFS was only able to classify cases as 'at risk' rather than fraud, where there was evidence that Standard Financial Instruction processes had not been followed correctly. Based on the findings of this exercise, the NHS CFS produced an estimate of £72.8 million 'at risk' during 2006-07. This exercise did not include procurement of drugs, and the review of contracts could not take into account elements of procurement fraud such as bid rigging. Although this estimate was not as accurate as other fraud loss figures provided by the NHS CFS, this at risk estimate was included in the NFA fraud loss estimate for 2008.

Reported fraud losses

As part of their operational investigations, the NHS CFS reported £4.2 million worth of identified fraud from closed cases during 2007-08. This reported fraud figure could not be broken down by fraud type. For the same period, Audit Scotland reported fraud losses of £106,000.

Private Sector fraud

Private Sector fraud

Insurance fraud

The UK insurance industry is the largest in Europe and the third largest in the world accounting for 11 per cent of total worldwide premium income. The insurance market is divided into two categories: general insurance (i.e. motor, property, accident and health) and long-term insurance (i.e. life and pensions). Long-term insurance accounts for the majority of the insurance market, with total net premiums of £131 billion, compared to just £33.8 billion for the general insurance market.

The Association of British Insurers (ABI) publishes an annual 'savings' figure relating to general insurance fraud and provides fraud losses for both detected and undetected insurance fraud. Based on information provided by the ABI, insurance fraud is estimated to have cost the industry £2.08 billion during 2008. These fraud losses apply only to the general insurance market as undetected fraud in the long-term insurance market is believed to be exceptionally low.⁴

Detected insurance fraud

The latest report published by the ABI in July 2009 stated that the value of fraud 'savings' in general insurance was £730m, an increase of 30 per cent from 2007. The majority of detected insurance fraud is identified before a claim is paid out, however a small percentage of these claims are paid out before the fraudulent claim is identified. The ABI estimates that around 3 to 5 per cent of detected fraud is paid out before the claim is identified as being fraudulent. Based on a mid-point of 4 per cent it is estimated that £29.2 million was paid out by insurers before the claim was identified as fraudulent. The remaining figure of £700.8 million has been excluded from the fraud loss figure as it represents fraud that was identified and stopped before money was paid out to the claimant.

⁴ In 2008, insurers identified £32m worth of fraudulent claims against long-term insurance policies (compared to £87 billion worth of paid out claims in 2008). As these losses apply to detected fraud losses only, the figure of £32 million for fraudulent claims within the long-term insurance business was excluded from the overall fraud loss figure.

Undetected insurance fraud

Insurance fraud is often opportunistic in its nature. Because of this, fraudulent insurance claims often go undetected. In order to get a better estimate of insurance fraud losses, the ABI carried out a survey in 2006 and 2008, asking insurance companies to estimate their undetected insurance fraud losses. Based on the findings of this survey, the ABI estimates that the UK insurance industry lost £1.9 billion during 2008 as a result of undetected fraudulent insurance claims. This figure of £1.9 billion represents an increase of 24 per cent in undetected insurance fraud since 2006.

The 2008 undetected insurance fraud figure provided by the ABI includes losses of £200 million resulting from organised insurance fraud (namely staged motor vehicle accidents). Since the ABI published their 2008 fraud estimate of £1.9 billion, the Insurance Fraud Bureau (IFB) has provided the NFA with a more accurate estimate of £348 million for insurance fraud relating to staged motor vehicle accidents. This figure of £348 million⁵ has been substituted for the original estimate of £200 million and has been included in the NFA's overall fraud loss figure.

⁵ Due to the method used in calculating organised insurance fraud, organised insurance fraud detected after claims were paid out could not be separated from this figure.

Private Sector fraud

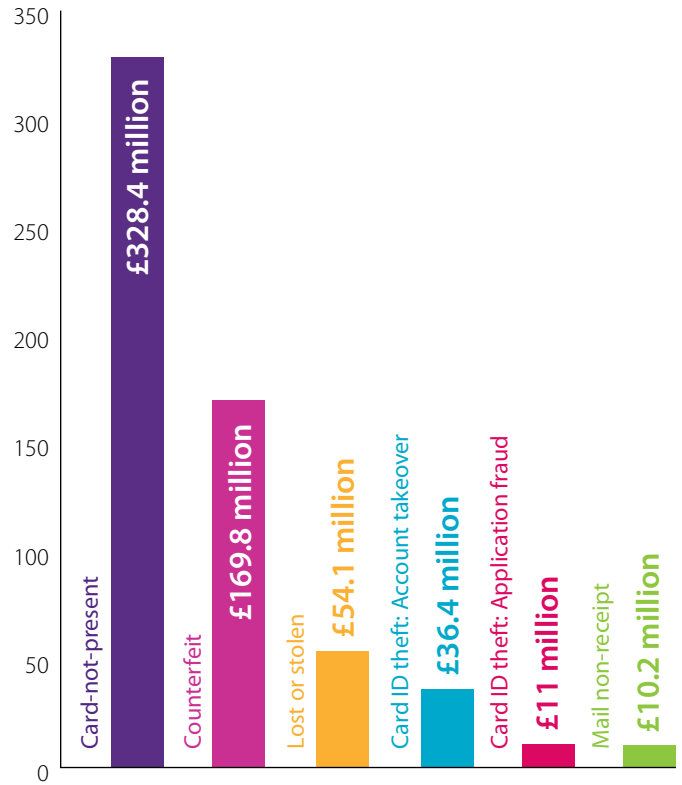
Payment and plastic card fraud

Plastic card fraud, cheque fraud and online banking fraud continue to cause significant losses for the banking industry. Financial Fraud Action UK (FFA) (formally known as APACS) publishes an annual report relating to fraud within the payment industry. According to FFAs 2009 publication, plastic card fraud, cheque fraud and online banking fraud cost the banking industry £704.3 million during 2008.

Plastic card fraud

Over 10.5 billion transactions were made on UK cards in 2008, with spending on UK cards amounting to £397 billion. FFA has reported an increase in plastic card fraud to £609.9 million, up 14 per cent from 2007. The majority of plastic card losses resulted from card-not-present fraud and accounted for over half of all plastic card losses. Card-not-present fraud has continued to rise, although this should be seen alongside changes in plastic card usage (i.e. many more transactions are made online, by phone or through mail order than five years ago).

Figure 7
Breakdown of plastic card losses



The figures included in the NFA fraud estimate are taken from reported losses for 2008. Figures released for the first six months of 2009 by FFA show that plastic card losses are down by 23 per cent compared to the first half of 2008 including the first ever fall in card-not-present fraud losses.

Private Sector fraud

Cheque fraud

Cheque payments only accounted for 3 per cent of retail spending during 2008 with an average value of £267 per personal cheque. Cheque fraud losses have increased by 25 per cent since 2007 although cheque fraud losses of £41.9 million remain low compared to other types of payment fraud. Forged cheques still account for the largest area of loss (£17.4 million) although forged cheque fraud losses are down by 15 per cent compared to 2007. The largest increases in cheque fraud have resulted from counterfeit and fraudulently altered cheques.

Online banking fraud

More than 23 million adults banked online in 2008 with over 55 per cent of internet users accessing at least one bank account online. Online banking fraud has more than doubled since 2007 with the banking industry losing £52.5 million to online banking fraud during 2008, an increase of 132 per cent from 2007. These losses coincide with a significant increase in the number of phishing websites targeted against UK banks and building societies. Likewise malware, spyware and money mules continue to cause problems for the banking industry and its customers. Online banking fraud has continued to rise in the first half of 2009 with the fraud loss for 2009 likely to exceed fraud losses reported in 2008.

Mortgage fraud

Calculating a reliable estimate of mortgage fraud has been challenging. The NFA carried out a targeted measurement exercise in the early part of 2009 to identify the value of mortgage fraud losses during 2008.

Few banks responded to the initial request for data and of the lenders who did respond, the mortgage fraud losses reported by these lenders were unusually low, amounting to just £27.3 million

for 2008 – covering 19 per cent of the lending market. To extrapolate these losses to the remaining 81 per cent of the lending market would suggest that mortgage fraud losses during 2008 amounted to approximately £150 million.

Yet an estimate of £150 million appears to underestimate the scale of the mortgage fraud problem compared to the losses being reported publicly by some lenders. In March 2009, Bradford and Bingley reported that they had identified a £40 million mortgage fraud and had set aside £270.8 million to cover potential losses from fraud and professional negligence. Likewise Chelsea Building Society reported in August 2009 that they had identified fraud of up to £41 million. Confirmed mortgage fraud losses for these two lenders exceed £80 million yet both lenders account for only 4.8 per cent of all mortgage lending during 2008, suggesting mortgage fraud losses during 2008 are much higher than the fraud losses provided to the NFA in February 2009.

Quantifying mortgage fraud is challenging for lenders and as such, lenders have been unable to provide the NFA with an accurate measure relating to mortgage fraud. The NFA has been working with the Council of Mortgage Lenders (CML) and mortgage lenders to assess the level of mortgage fraud.

As mortgage fraud accounts for significant fraud losses, the NFA has engaged with industry experts in order to obtain an industry estimate of mortgage fraud. There is general agreement within the industry that mortgage fraud losses materialising during 2008, amounted to losses of around £1 billion.

Private Sector fraud

Telecommunications fraud

The Telecommunications UK Fraud Forum (TUFF) estimates that, on average, telecommunications companies lose 2.4 per cent of their annual turnover to fraud. Applying this average to industry turnover of £39.5 billion, it is estimated that £948 million was lost during 2008 to telecommunications fraud.

This figure provides an indication of the scale of telecommunications fraud although it should be acknowledged that fraud losses vary significantly depending on the telecommunications company. Large telecommunication companies are likely to lose much less than 2.4 per cent of their annual turnover to telecommunications fraud. In contrast, small, start up telecommunications companies could lose anything up to 15 per cent of their annual turnover to fraud.

The NFA will be working with TUFF and telecommunications providers to obtain a breakdown of fraud figures by fraud type to help identify the major problem areas within telecommunications fraud.

Corporate fraud

There were no fraud estimates available for fraud in the private sector, beyond banking, insurance and telecommunication industry losses. KPMG and BDO both publish fraud loss data that attempts to quantify private sector fraud and while both provide useful indications of the value of reported fraud cases, these have not been included in the NFA's 2008 fraud loss estimate due to likely overlaps with other data already included in this fraud measure.

As there are few reliable estimates available for fraud losses suffered by the private sector, the NFA has used the findings of a recent fraud survey in order to estimate fraud losses suffered by large companies within the private sector.

In 2008, Kroll (one of the world's leading risk consultancies) commissioned the Economist Intelligence Unit to conduct a worldwide survey on fraud and its effect on business during the year⁶. Of the companies polled, 42 per cent had global annual revenues of more than US\$1 billion. In total, 890 senior executives took part in this survey, a quarter of which were from companies based in Europe. The survey covered ten industries, drawing survey responses from at least 50 respondents per industry and covered a broad range of fraud types including procurement fraud, financial mismanagement and regulatory and compliance breach.

⁶ Any information provided by Kroll and contained herein is based on sources and analysis Kroll believes reliable and should be understood to be general management information only. Kroll accepts no liability for any reliance you may place on this information. This information is owned by Kroll and The Economist Intelligence Unit Ltd, and its contents, or any portion thereof, may not be copied or reproduced in any form without the permission of Kroll. Kroll is a subsidiary of Marsh & McLennan Companies, Inc (NYSE: MMC), the global professional services firm.

Private Sector fraud

The findings of the Kroll Global Fraud Report 2008-09 have been applied to the UK in order to calculate an estimate of fraud losses across ten private sector industries. Working with Kroll, the NFA has applied the survey results to data held by the Department for Business, Innovation and Skills (BIS) on the number of large enterprises in the UK (defined as any company or enterprise with more than 250 employees). Small to medium enterprises have been excluded from this analysis to reflect the global scope of respondents and prevalence of large companies.

According to BIS, there were 6,020 large companies across the UK with a combined turnover of £1.3 trillion⁷. By mapping the industry classifications of these large enterprises as closely as possible against the 10 industries outlined in the 2009 Kroll survey, fraud losses could be estimated for UK private sector companies by applying the average loss reported by companies across each industry along with the number of companies reporting being the victim of fraud.

Figure 8
Breakdown of corporate fraud losses

Type of fraud	Estimated fraud losses for sector
Consumer goods	£1.3 billion
Manufacturing	£1 billion
Construction	£764 million
Financial services	£641 million
Retail, wholesale and distribution	£544 million
Travel, leisure and transportation	£372 million
Professional services	£238 million
Healthcare, pharmaceuticals and biotechnology	£211 million
Natural resources	£150 million
Technology, media and telecoms	£191 million
Total	£5.4 billion

Overall, it is estimated that UK large enterprises lost £5.4 billion to fraud during 2008. The consumer goods and manufacturing industry were the industries that suffered the greatest loss, with an estimated total of £2.3 billion being lost during 2008. Significant fraud losses were also suffered by the construction, financial services and retail, wholesale and distribution industries.

For the purpose of the NFA fraud measurement, estimated losses for the financial services and the technology, media and telecoms industries were excluded to prevent double counting issues with other fraud loss figures within these sectors.

This initial industry estimate is not as robust as it will be over the next few years; however it allows for comparison between the different industries and gives an indication of the scale of fraud losses outside of the public sector.

Small to medium businesses

While the corporate fraud estimate provides an indication of fraud losses for large companies, the losses do not include fraud suffered by small to medium businesses.

The NFA is supporting a separate survey to identify fraud losses against small and medium sized businesses and will include these findings in the 2009 fraud estimate. Total fraud losses suffered by small and medium sized businesses are likely to be lower than the NFA's corporate fraud estimate, however individual businesses can be hit hard and the impact of fraud can be much more severe for small and medium sized companies.

⁷ Turnover not available for financial services sector.

Individual and Charity Sector fraud

Individual fraud

Individual fraud

In December 2006, the Office of Fair Trading (OFT) published a report on the impact of mass marketing fraud, which includes, for example, pyramid schemes and prize and lottery scams.

The OFT surveyed 11,200 people and carried out detailed follow-up interviews with 1,900 people. Respondents were asked about their experiences of mass-marketing fraud, including whether they had ever been the victim of a fraud (or knew of someone who had been a victim) and how much money had been lost. Extrapolations were made, and a UK-wide estimate of mass-marketing fraud was produced.

Based on the findings of this survey, the OFT estimated that £3.5 billion is lost each year as a result of mass-marketing fraud. This equates to around £70 each year for every adult living in the UK. Holiday club scams, high risk investment scams and pyramid schemes were the most costly mass-marketing frauds, accounting for almost 60 per cent of all mass-marketing fraud losses. The report identified that almost half of the UK adult population is likely to have been targeted by a scam. Overall, it is estimated that 3.2 million people fall victim to a mass-marketing fraud each year.

Figure 9
Breakdown of mass-marketing fraud losses

Rank	Mass-marketing scam	Fraud loss
01	Holiday club scams	£1.17 billion
02	High risk investment scams	£490 million
03	Pyramid schemes	£420 million
04	West African letter or '419'	£340 million
05	Foreign lottery scams	£260 million
06	Loan scams	£190 million
07	Property investor scams	£160 million
08	Other scams	£100 million
09	Premium rate telephone scams	£80 million
10	Work at home and business opportunity scams	£70 million
11	Internet dialler scam	£60 million
12	Prize draw scam	£60 million
13	Clairvoyant fraud	£40 million
14	Career opportunity scams	£30 million
15	Health and medical scams	£20 million
16	Matrix schemes	£10 million
Total		£3.5 billion

Fraud against individuals often goes unreported which makes the task of quantifying fraud losses much harder. Through the introduction of Action Fraud (the national fraud reporting centre) the NFA will be able to analyse reports of fraud in order to better quantify fraud losses against individuals. The OFT is considering replicating their 2006 survey in 2010. This would provide the NFA with a more up-to-date estimate of mass-marketing fraud losses.

Individual fraud

Fraud loss figures provided by the OFT research provides a useful indication of fraud losses resulting from mass-marketing fraud. However, the figures do not include other forms of fraud against individuals (i.e. online auction fraud). One of the challenges of measuring individual fraud is to properly capture fraud losses against the individual including non mass-marketing fraud without double counting fraud loss figures. While many individuals are the victims of online auction fraud or online shopping fraud etc, the fraud loss often lies with the payment processor (i.e. the bank, PayPal etc) and as such fraud loss figures should be provided by the organisation or person who directly lost money as a result of fraud.

As fraud measurement processes mature and more suitable mechanisms are developed, the NFA will be able to get a more comprehensive picture of fraud losses suffered by individuals, to expand on the mass-marketing fraud estimates published by the OFT.

Charity Sector fraud

Charity fraud

During 2008 there were 168,354 charities registered with the Charity Commission, with an annual gross income of £48.4 billion. Estimates of the prevalence of charities which report being the victim of fraud vary from three to 24 per cent. This is lower than reported for UK businesses, although this could be a result of less sophisticated detection techniques and a lower level of fraud awareness.

The Charity Commission has not yet looked at estimating fraud within the charity and voluntary sector. To ensure that charity fraud losses are represented in the 2008 fraud measure, the NFA has produced a fraud estimate based on a survey carried out by the Fraud Advisory Panel. In 2008, the Fraud Advisory Panel sent out 5,000 questionnaires to registered charities across England and Wales, asking charities about the fraud risks they face.

The Fraud Advisory Panel provided the NFA with an anonymised breakdown of reported fraud losses. Taking into account the size of the charity, the percentage of respondents who reported being a victim of fraud and the average fraud loss suffered by the charity, the NFA extrapolated these reported fraud losses to provide a fraud estimate of £32.2 million for the charity sector.

While the figure provided above gives an indication of fraud loss within the charity sector, the figure does not include undetected fraud and as such is likely to significantly underestimate fraud losses within the charity sector. Likewise, the figure does not include fraud perpetrated by charities. The Charity Commission is now working with the NFA and the Serious and Organised Crime Agency (SOCA) to set up a fraud measurement process to quantify fraud within the charity sector. The results of this measurement exercise will be included in the 2009 fraud measure.

Moving forward

Moving forward

As a strategic organisation with a dedicated fraud measurement unit, the NFA is in a prime position to improve fraud measurement practices. In compiling this fraud estimate it has become clear that the lack of available fraud loss data is mostly due to the fact that many organisations do not measure fraud losses. Sometimes organisations are reluctant to disclose the scale and nature of any frauds from which they have suffered. The NFA is working to change this approach.

There are many obstacles to be overcome before the NFA is able to accurately quantify fraud losses across all sectors and at the level of granularity needed to properly assess the scale of the problem. One of the key roles of the NFA will be advocating the use and benefits of fraud measurement and encouraging organisations and industries that were unable to provide fraud loss estimates for this 2008 fraud measure, to develop mechanisms for recording fraud losses and estimating levels of undetected fraud. There are also areas where fraud loss data providers must be engaged with, to encourage them to share fraud figures for the purpose of a centralised fraud estimate.

Measuring fraud in the Public Sector

The public sector has made significant progress in developing measurement methods which attempt to quantify undetected fraud. The Department for Work and Pensions (DWP) and NHS both have dedicated units, set up for the purpose of measuring fraud. HMRC also has dedicated resources for measuring tax gaps, including the measurement of losses resulting from fraudulent behaviour.

In the public sector, where measurement exercises have been carried out, the estimates provided are robust and comprehensive and provide a good indication of fraud loss. However, there is no standardised approach in place across the public sector to quantify reported fraud and this is particularly the case for local Government. A key priority for the NFA is to work with the public sector to provide guidance and support to enable government bodies to better quantify their fraud losses. The NFA also aims to encourage and support the public sector in carrying out exercises that quantify undetected fraud in high risk areas.

Moving forward

Measuring fraud in the Private Sector

One of the main problems with the NFA quantifying fraud across the UK economy is that there are few industries that have quantified their fraud exposure. Developing a fraud measurement process across the private sector will be more challenging than quantifying public sector losses, as private sector fraud measurement will rely on trade associations and representative organisations being able and willing to co-ordinate the collection of fraud loss data. Fraud measurement is also more difficult within the private sector, as many companies consider fraud loss data to be commercially sensitive. This presents a significant challenge for the NFA to encourage industries to quantify their fraud losses and share data. This has particularly been the case with banks sharing mortgage fraud loss data. Improving fraud measurement within the private sector relies on continued engagement work with various industries, including making contact with organisations or trade bodies (not necessarily linked to countering fraud) to see where they may be able to assist.

Measuring fraud against individuals

The Office of Fair Trading (OFT) and its partners are considering carrying out a follow-up survey to replicate the survey carried out in 2006 looking at mass-marketing fraud. This would provide updated estimates of individual fraud losses resulting from mass-marketing fraud. However due to the costs in carrying out a survey of this size, it is unlikely that this survey will be carried out on an annual basis and, as such, the NFA needs to identify alternative solutions for measuring fraud against individual victims.

Through the introduction of Action Fraud, the NFA will be able to gather on-going data relating to victim reports of fraud. However fraud reported via Action Fraud can only quantify those frauds reported through the helpline. The NFA is looking into the possibility of extending the Home Office British Crime Survey to include victim experiences of fraud. By extending the Home Office British Crime Survey to include fraud, the NFA will be able to get a better indication of the value of undetected fraud against individuals currently unreported to the Police or Action Fraud.

Measuring fraud in the Charity Sector

The Charity Commission is keen to work with the NFA and the Serious and Organised Crime Agency (SOCA) in order to quantify fraud losses both perpetrated by charities and suffered by charities. In order to improve measurement of charity fraud it is necessary to review the way in which charities record fraud, including looking at whether there should be a requirement for charities to report all instances of fraud. As the regulator of the charity sector, the Charity Commission is a key organisation in helping to improve the quality of charity estimates.



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