



**National Fraud
Authority**

Annual Fraud Indicator

June 2013



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Foreword

Stephen Harrison, National Fraud Authority Chief Executive



I am extremely pleased to publish the Annual Fraud Indicator (AFI) 2013, which has an important role in raising awareness to ensure that individuals and organisations protect themselves against fraud, and report fraud when they fall victim.

This year's AFI has put the loss to the UK economy from fraud at £52 billion. Individuals can experience financial loss which can also have a significant emotional cost, especially for vulnerable victims. Private sector businesses suffer the highest levels of loss and can also suffer other impacts like reputational damage. Loss to smaller businesses can even put their future at risk. Defrauding the taxpayer, particularly in the current challenging circumstances, is unacceptable and takes resources away from providing front line services.

The AFI has developed year on year to provide the most robust estimates of fraud loss to date, whilst clearly highlighting the gaps in identified (measured or surveyed fraud) and hidden (or undetected) fraud. The AFI does not indicate whether fraud losses overall have increased or decreased. Rather it provides an indicative estimate of the potential scale of the problem nationally by drawing on a compendium of fraud loss estimates.

The AFI 2013 is different to previous AFIs in that it includes estimates of a greater number of fraud types. We have also improved the quality of these estimates in a number of areas. Learning from the responses to last year's questions, this includes asking more informed people of their views on their personal or sector's fraud losses. This has led to lower estimates of fraud loss in some areas, but an increase in the reliability of these estimates. This still significant loss to fraudsters is undoubtedly a very important part of targeting fraud prevention and enforcement work where it is most needed, and where it will have the greatest impact. However, there is still a need for better monitoring, and for organisations to measure fraud loss, as they measure losses due to other crimes.

I look forward to continuing to work with partners and stakeholders to prevent, disrupt and bring to justice the fraudsters who cause such harm to our society.

Stephen Harrison

Introduction

The National Fraud Authority (NFA) works with the counter-fraud community to make fraud more difficult to commit in and against the UK. Words such as 'scam', 'con', 'swindle', 'bamboozle' and 'cheat' are sometimes used to describe fraud. The slang nature of these terms can often hide the seriousness of the crimes they represent. The effects of fraud can be extremely harmful and are not limited to depriving individuals and businesses of their money:

- for organisations, the impact can stretch from reputational damage to going out of business;
- in the public sector, which is currently in austerity, misappropriation of public funds makes things tougher for everyone and can affect public confidence;
- in the charity sector this would mean that funds are not reaching those that most need them and;
- the impact on individual victims including the most vulnerable within our society, will be financial and can also include social harms and trauma.

Fraudsters are incredibly inventive. They use a wide variety of means to target their victims and their single ambition is to deprive their victims of money without any concern for their well-being. Fraudsters may be part of serious organised criminal gangs that use the money to fund other crimes such as human trafficking and terrorism.

The Fraud Act 2006 provides legislation on the offence of fraud. It outlines a general offence of fraud and introduces three ways of committing it:

- fraud by false representation;
- fraud by failing to disclose information; and
- fraud by abuse of position.

In each case:

- the defendant's conduct must be dishonest;
- his/her intention must be to make a gain; or to cause a loss or the risk of a loss to another person;
- no gain or loss needs actually to have been made;
- the maximum sentence is ten years' imprisonment.

The NFA aims to highlight potential fraud losses, through the Annual Fraud Indicator (AFI), with a view to encourage the building of more resilience amongst business, charities, the public sector and by individuals.

The AFI 2013 is a compendium of fraud loss indicators drawn together to illustrate tentatively the possible scale, prevalence and cost of fraud. In line with the Fighting Fraud Together strategy, the AFI covers fraud against all types of victims in the UK.

There are large gaps in knowledge about fraud losses, and methods to measure fraud accurately across the spectrum are still developing. This is because fraud is a hidden crime. Fraud reported to the authorities is a small proportion of the fraud detected, which in turn is a fraction of the fraud that remains out of sight.

The NFA strives to reveal this hidden fraud by working with stakeholders across all sectors, collating and analysing secondary sources and conducting primary research in the form of surveys. The NFA seeks to estimate the full extent of fraud losses to a sector by extrapolating to potential victims the patterns identified in these sources. The AFI is therefore heavily reliant on the data collected and held by the NFA's partners and

stakeholders. The NFA is grateful for the contributions received for the AFI 2013. Due to the variety of figures available for inclusion in the AFI, not all the information contained within the AFI 2013 pertains to 2012. Estimates reflect the latest year for which figures are available, which in the present AFI ranges from 2006 to 2013. There are also still gaps in the data, which mean that the entire fraud spectrum is not captured.

The data estimates included in the AFI are also not necessarily comparable. In view of these factors, the AFI is not a set of crime statistics, but rather a best estimate of the possible size of the problem. Its purpose is to raise awareness and reveal the bigger hidden picture of loss to victims. Each iteration of the AFI replaces the last. Therefore, year on year comparison of fraud losses are not valid.

The NFA encourages organisations to review their own fraud risks, measure their fraud exposure and share the knowledge gained. A number of organisations in the public, private and charity sectors have well developed responses to managing their fraud risks. The AFI helps sectors that have yet to obtain similar levels of response by raising awareness of the scale of their likely exposure, as well as to develop effective solutions by 'tapping in' to the good practice developed in other sectors. **It encourages all to report experiences of fraud to Action Fraud, the national reporting centre for fraud and internet crime. Members of the public, businesses and charities can report to Action Fraud online at: www.actionfraud.police.uk or by telephone: 0300 123 2040.**

Action Fraud provides a central point of contact for information about fraud and financially motivated internet crime. Action Fraud is the primary contact point for reporting fraud and internet crime. Reporting to Action Fraud ensures that proper crime reporting procedures are followed. By capturing all fraud and internet crime intelligence in one place, the police can link seemingly unrelated crimes from around the country and identify organised criminal networks.

Once information received through Action Fraud has been assessed, the National Fraud Intelligence Bureau then sends to police forces or other agencies packages for investigation only where there is actionable intelligence or viable lines of inquiry available for the force to pursue.

This report is designed to be a reference document for readers to draw on the available knowledge that best suits their information needs. Each section starts with a working definition of the fraud victim, enabler or type, then provides information on the scale and context of the fraud, the methodology the NFA has used to determine its prevalence, and, where possible an estimate of the cost to the UK.

The composite estimate of the possible cost of fraud to the UK is built on the NFA's assessment of fraud by victim group. Due to overlaps and gaps when considering fraud by enabler or fraud by type, it is not appropriate for all the estimates examined in this document to be summed simply into a composite figure (see annex 2 for fraud by type estimates).

Methodology

The methodology behind some estimates included in this report is more mature than that of other estimates. Over recent years, there have been a number of step changes in the research methodology applied to produce estimates. These mean that, year on year comparisons are not meaningful. Each iteration of the total estimate of fraud loss is an improvement, which replaces the previous figure and cannot sensibly be used to trend or draw conclusions on the 'growth' or 'decline' of fraud over time.

A previously accepted estimate of fraud loss was published by the Association of Chief Police Officers (ACPO) in 2006¹. The limited research was based on existing validated 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. In 2008 the Government created the NFA, which set up a fraud measurement and analysis unit to improve the way fraud loss is mapped in the UK.

The first AFI in 2010 revised the ACPO fraud loss estimate through further work to include areas of the economy not previously covered. Notably, top down estimates of identified fraud losses against industry groups in the private sector were included. This revision placed likely fraud losses at £30 billion per annum. The second AFI publication in 2011 sought to improve coverage with new estimates of loss, most notably in fraud against the charity sector, and estimated fraud losses at £38 billion per annum. The third AFI publication in 2012 represented a further step change to improve the comprehensiveness of the estimate and quantify hidden private sector fraud loss through a survey of UK businesses. Changing research methodology in this way was the primary driver behind the increase in the estimate of fraud loss against the UK to £73 billion per annum.

There are, however, some limitations to the approach of using surveys to estimate areas of unknown fraud loss. These include:

- the potential bias of organisations self selecting to participate;
- the level of response rates;
- issues of representativeness within the samples; and
- findings that are based on opinion rather than fact.

These limitations were noted in the AFI 2012.

As promised in the AFI 2012, the NFA has therefore worked to mitigate these limitations where possible in primary research undertaken for the AFI 2013. This has included:

- designing out potential errors and bias through stronger sampling strategies;
- increasing samples sizes where necessary to enhance confidence levels; and
- increasing the cognitive understanding of the questions by respondents through better question specification and more robust analysis.


The AFI 2013, therefore, once again collates primary and secondary data sources into a single document to act as a compendium of fraud loss estimates for potential victims and policy makers. The AFI is reliant on the quantity and quality of data available from the NFA's partners and stakeholders. This is necessarily variable and the NFA has therefore undertaken to quality assure its estimates. The caveats and limitations of the estimates in the AFI need to be referred to when referencing.

¹ Levi, M., Burrows, J., Fleming, M. and Hopkins, M. (with the assistance of Matthews, K.) The Nature, Extent and Economic Impact of Fraud in the UK. London: Association of Chief Police Officers. Available at: www.cardiff.ac.uk/socsi/resources/ACPO%20final%20nature%20extent%20and%20economic%20impact%20of%20fraud.pdf

Caveats and limitations

In accordance with standard practice, this report has been subject to extensive quality assurance before publication, including external peer review by independent academic experts. The AFI is not a statistical model and is not always able to apply scientific methods to the calculation of all estimates.

To help the reader understand better the relative confidence that the NFA has in the figures described, each estimate is assigned a BRAG status – black, red, amber or green.

BRAG	Level of confidence
	Poor
	Average
	Good
	Excellent

The level of confidence in each estimate is based upon the professional judgement of the NFA, based on a range of factors including:

- the volume and quality of data underpinning an estimate;
- the method by which data was collated;
- the coverage of an estimate;
- the level of response to surveys;
- the representativeness of a survey sample;
- whether the findings were based on opinion or data.

The AFI does not aim to trend overall levels of identified or hidden fraud. Whilst there are estimates that have been BRAG-rated as green, it is not necessarily clear whether these estimates can be trended from one AFI to another because they may have been measured in different ways year on year. Therefore, they may not be comparable and have not been trended in this document.

Rather, the AFI provides an indicative measure of the potential scale of the problem nationally. Changes from one AFI to another are not measures of an increase or decrease in fraud losses. The estimates are calculated in different ways and they are therefore not necessarily comparable. Annex 2 outlines the estimates that are of identified fraud (those that have been measured, or extrapolated based on a measurement exercise or survey) and those which are estimates of hidden fraud (where fraud has not been detected nor identified through a measurement exercise or survey); as well as those estimates that apply across both. Further it should be noted that fraud cited as being 'unknown' does not mean that no fraud exists, but rather that no fraud has been identified, measured or is not estimated.

Annex 1 provides a detailed technical note on the methodologies used for the primary research.

Annex 2 provides a summary table of the composite estimates, including the NFA's level of confidence in each estimate and whether the estimate is made up of identified and hidden fraud losses.

Please note some figures described in the document appear not to add up, this is due to rounding.

Summary

Understanding the scale and nature of fraud is complex as fraud is a hidden crime. The National Fraud Authority (NFA) has worked in partnership with a wide variety of stakeholders across the economy year on year to build a better understanding of the prevalence of fraud and its cost to the UK. Each iteration of the Annual Fraud Indicator (AFI), therefore, replaces the last.

The AFI seeks to provide the best estimate available of the scale and nature of the fraud problem. The AFI estimates are not the definitive costs of fraud, which may be higher or lower than the estimates. However, during 2012 the NFA sought to gain more confidence in the estimates produced. More robust primary research was conducted of:

- **fraud against the private sector;**
- **fraud against the charity sector;**
- **identity fraud against individuals.**

The other areas of fraud loss where estimates have already been developed have been updated where possible. The new estimates do not reflect any real change in fraud loss levels, but rather improved measurement by the NFA and the counter-fraud community. In view of this, the current estimates are not comparable with previous reports. They have therefore not been compared in this report and it is statistically invalid to do so. The AFI 2013 replaces previous attempts to quantify the extent of fraud. It should be considered the most recent reliable snapshot of fraud losses across the UK. It is therefore an indicative measure of potential fraud losses and in no way should be considered definitive. The key findings of the NFA's research for the AFI 2013 are as follows:

Key findings

Fraud by victim

- The AFI outlines the possible scale of fraud losses against all victims in the UK by fraud type.

Private sector

- During 2012 the NFA sought to identify the prevalence and nature of fraud against UK based businesses. GfK NOP research agency was commissioned to undertake a bespoke quota sample telephone survey with a range of small, medium and large enterprises across the UK. This was supplemented by qualitative interviews with a subset of the sample to help elucidate the survey findings further. The business survey did not include the financial services sector; companies in this sector do not have comparable turnovers so could not provide comparable fraud loss percentage estimates. It also did not include sole traders, to prevent the conflation of business fraud losses with individual fraud losses (see technical annex 1).
- Participants estimated that, on average, fraud losses as a proportion of turnover could be in the region of **0.54 per cent**, with 0.18 per cent lost to detected fraud and 0.36 per cent lost to hidden or undetected fraud. This is approximately equivalent to **£15.9 billion** per annum.

- The Department for Business, Innovation and Skills (BIS) has indicated that turnover data for Financial and Insurance activities were not comparable with other private sector turnover data. To overcome this, the business survey has been supplemented by an analysis of identified fraud losses and an estimate of possible undetected fraud loss from Financial and Insurance activities using the relative percentages of gross domestic product (GDP) for the sectors. If Financial and Insurance activities represent 11 per cent of all GDP, compared to 67% for the rest of the private sector, hidden or undetected losses would equate to £1.8 billion. In conjunction with other identified fraud loss estimates we have a combined figure for fraud in the Financial and Insurance activities of **£5.4 billion** (see p19).

Public sector

- Fraud against the public sector is estimated to be **£20.6 billion** per annum.
- The estimate of possible public sector fraud losses includes losses to local and central government, as well as to the tax system. It is estimated that central government might be losing £2.6 billion and local government £2.1 billion to fraud, with a further £14.1 billion lost to tax fraud and vehicle excise fraud, and £1.9 billion to benefit and tax credit fraud.

Charity sector

- Fraud against the charity sector is estimated to cost registered charities across Great Britain **£147.3 million**. In all, 1,599 registered charities with an income over £100,000 responded to the third consecutive survey of the charities sector.
- 9.2 per cent of the charities that responded indicated that they had identified fraud in the last financial year (2011/12), with the most common types cited as payment/banking fraud (47%), accounting fraud (14.8%) and identity fraud (14.1%). 70.7 per cent of victims experienced fraud externally, whilst 31.3 per cent suffered internal fraud. The frauds suffered were enabled in a number of ways. For example, 13.6 per cent of victims said that they had experienced cyber-enabled fraud, whilst 23.1 per cent succumbed to insider-enabled fraud.

Individuals

- The NFA estimates fraud against individuals in the UK to equate to a loss of **£9.1 billion** per annum, based on estimates of the scale of mass-marketing fraud, identity fraud, online ticket fraud, private rental property fraud and electricity prepayment meter scams.
- To understand levels of fraud awareness and victimisation of individuals the NFA commissioned a nationally representative survey with 4,213 people in December 2012. This showed that 8.8 per cent of participants were aware that they had been a victim of identity fraud within the previous 12 months, losing an average of £1,203 each. Over one-quarter (27%) stated that they had experienced identity fraud at some point in time.

Overall

- If the fraud loss estimated for individuals of £9.1 billion is applied to the average income per head per household it would produce an estimate of 1.03 per cent of income identified as being lost to fraud.
- Identified levels of fraud average 0.18 per cent of turnover amongst the private sector, 0.04 per cent of income amongst the charity sector, 0.13% of receipts in the public sector and 1.03 per cent amongst individuals' household income.
- Hidden or undetected levels of fraud loss have been estimated at 0.17 per cent of charities' income, 3.63% of public sector receipts and 0.36 per cent of the private sector turnover.

Fraud by enabler

- Fraud enablers cut across the fraud landscape, and are used to defraud victims of all types, through many types of fraud. It is not always possible to provide a fraud loss estimate by enabler because of overlaps across enablers. It is also not always possible to aggregate fraud by type estimates to estimate fraud by enabler losses as there may be a risk of double counting.

Insider-enabled fraud

- Research undertaken by the NFA in December 2012 and January 2013 into fraud against the private and charity sectors included an analysis of fraud enabled by insiders.
- Of those who said that their charity had been a victim of fraud in the past year, 23.1 per cent said they had suffered at least 1 insider-enabled fraud (and a further 9.5% did not know).
- Of those who said that their private sector organisation had been a victim of fraud in the past year, 49 per cent said they had suffered at least 1 insider-enabled fraud.

Identity fraud

- In December 2012 the NFA surveyed a nationally representative sample of 4,213 UK adults online. The results revealed that 8.8 per cent had been an identity fraud victim in the previous 12 months. Those individuals who actually lost money lost on average £1,203 each.
- Across the UK adult population, this is equivalent to £3.3 billion lost each year.
- Just over one-quarter (27%) of the UK adult population surveyed had been a victim of identity fraud at some point in time.

Cyber-enabled fraud

- Analysis of Action Fraud data shows that from the period March 2012 to February 2013, Action Fraud received 58,662 cyber-enabled frauds and 9,898 computer misuse crime reports. Cyber related reports equated to 41 per cent of all Action Fraud crime and information reports, with an average loss of £3,689.
- Of the charities that had experienced fraud, 13.6 per cent had suffered cyber-enabled fraud, whilst more than one-third (36%) of private sector organisations that had experienced fraud said that they had suffered cyber-enabled fraud.
- The findings of both the charity and private sector surveys suggest that about one-quarter of cyber-enabled fraud victims (25% charities, 25% private) do not report any cyber-enabled frauds externally.

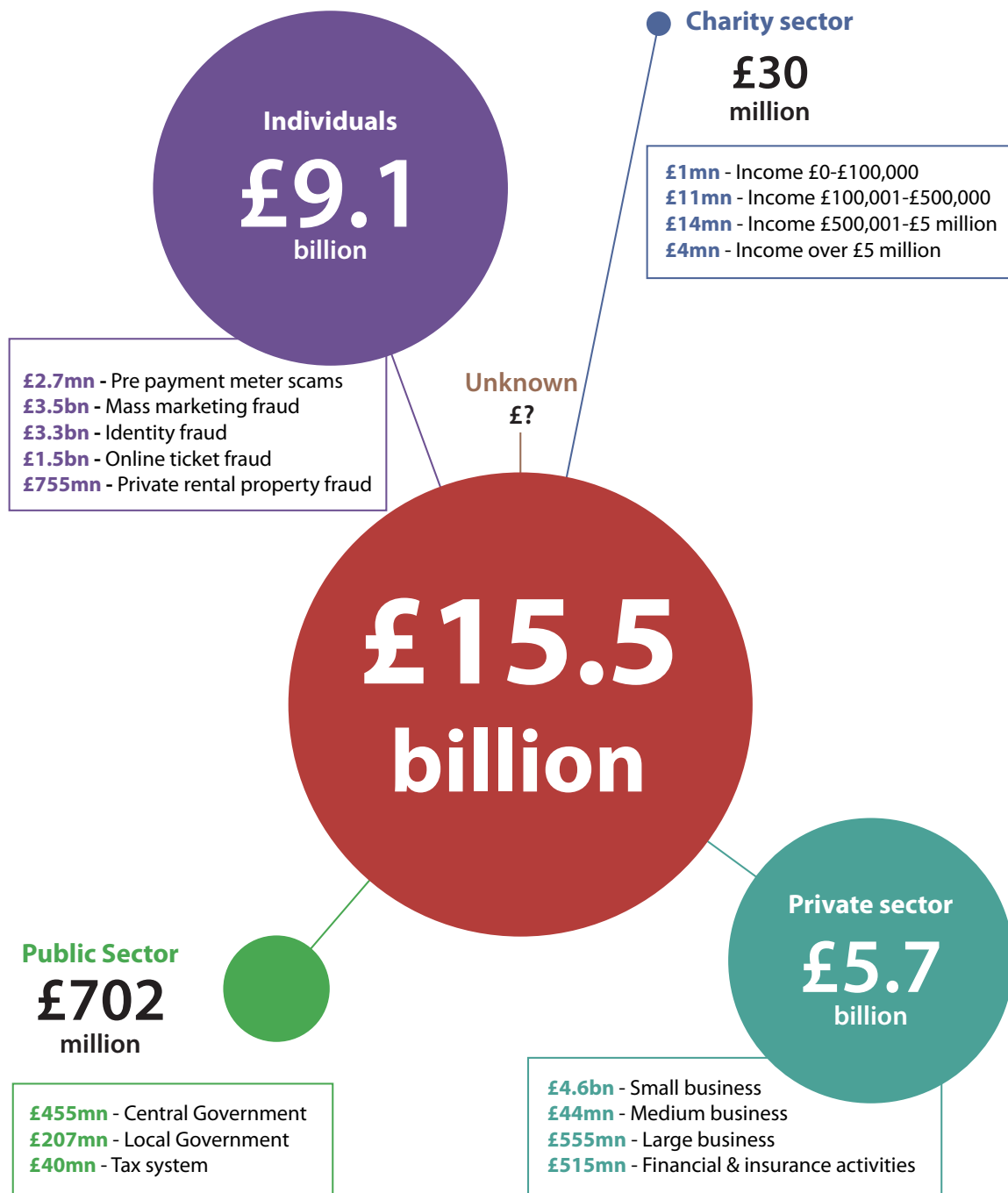
Organised crime

- Organised crime groups (OCGs) pose a considerable threat to the UK. Fraud is a significant element of this threat either as the primary activity of an OCG or as an enabler/ funding stream for other serious crimes.
- Only a sub set of the estimated fraud loss by type figures can currently be aggregated to ascertain whether it might have been perpetrated by OCGs.
- The NFA's estimate of fraud perpetrated by organised criminals is cautiously £18.9 billion. This includes £8.9 billion of £24 billion of fraud identified to have an organised crime element, along with an additional £9.9 billion estimated to be lost to OCG fraud.

Caveats and limitations

- The AFI is currently (at April 2013) not able to trend levels of identified and hidden fraud.
- Figures in the AFI are currently not a measure of success (or failure) for the counter fraud community, but rather a compendium of fraud loss estimates to raise awareness of possible losses to the victims.
- Each of the estimates is calculated in different ways and, therefore are not always comparable.
- Estimates are tentatively aggregated to provide a single indicative figure of what the possible fraud loss might have been in the financial year to April 2013.

Figure 1: Identified fraud loss estimates by victim

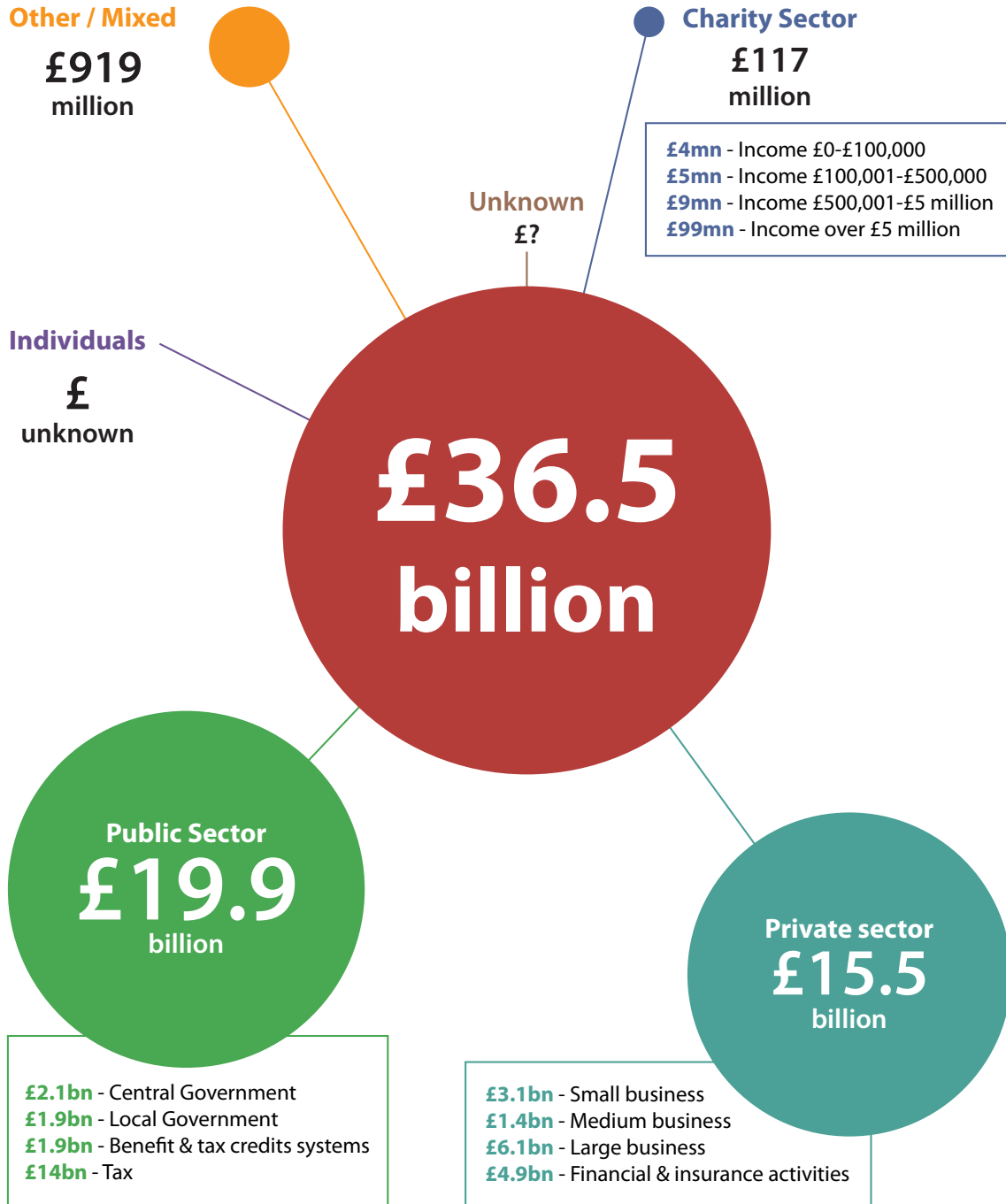


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

The identified fraud loss figures are likely to be an under estimate in some areas where the NFA have not been informed of detected losses, therefore, fraud losses are unknown, rather than zero or not present. See annex 2 for fraud by type breakdown.

Please note figures may not add up exactly due to rounding.

Figure 2: Hidden fraud loss estimates by victim



N.B: It is not always possible to clearly demarcate fraud types to identified or hidden fraud losses as some estimates spread across both. The hidden fraud loss estimate therefore includes those estimates that bridge both hidden and identified fraud losses (see annex 2).

See overleaf and annex 2 for a breakdown of losses within victim type.

Please note figures may not add up exactly due to rounding.

Fraud by victim

The National Fraud Authority estimates the scale and prevalence of fraud against the UK across a range of fraud types. These estimates are built upon the best available information from a wide range of sources, segmented by victim group.

The fraud loss estimates are different to previous figures, because they include improved estimates in a number of areas, which either reveal previously unknown losses or reflect a more robust method of measurement. The new estimates, therefore, do not altogether reflect an overall change in fraud loss, but rather improved measurement of fraud by the NFA and the counter-fraud community. As described, the estimates provide a snapshot of the best information available and should not be compared with earlier estimates of loss.

Public sector

£20.6 billion

Victim	Total Estimated Fraud Loss
Tax system	£14 billion
Central government	£2.6 billion
Local government	£2.1 billion
Benefits and tax credits system	£1.9 billion

The public purse is an attractive target for fraudsters, who look to abuse the tax, benefits and grants systems for personal gain. Furthermore, like all organisations, the public sector is subject to fraud risks against day-to-day business functions such as payroll and the procurement of goods and services.

The NFA estimate of fraud against the public sector is a composite of indicators. It draws on published estimates of fraud against the tax and benefits systems and the National Health Service (NHS), supplemented with illustrative top down estimates of other areas of spend (including fraud against grants, procurement and payroll) and fraud against local authorities.

The current estimate of fraud against the public sector is £20.6 billion per annum. This refreshes the estimate published in the Annual Fraud Indicator (AFI) 2012. The component figures within the total estimate have been revised to varying degrees.

Tax system*£14 billion*

Confidence in estimate	Fraud Type	Fraud Loss
	Tax fraud	£14 billion
	Vehicle excise fraud	£40 million

HM Revenue and Customs (HMRC) publishes annual statistics, which provide an estimate of the scale of the tax gap.² 'Measuring Tax Gaps 2012' estimates that the proportion of the tax gap, which is driven by fraudulent behaviours, amounted to £14 billion in 2010-11.³

The Driver and Vehicle Licensing Agency (DVLA) produce statistics on vehicle excise duty evasion. It estimates that vehicle excise duty evasion could cost around £40 million in lost revenue in 2011-12.⁴

Further details on how fraud against the **tax system** and **vehicle excise duty** is measured by HMRC and DVLA can be found in the section 'Fraud by type'.

Central government (excluding tax and benefits)*£2.6 billion*

Confidence in estimate	Fraud Type	Fraud Loss
	Procurement fraud	£1.4 billion
	Grant fraud	£504 million
	Television licence fee evasion	£204 million
	Payroll fraud	£181 million
	NHS patient charges fraud	£156 million
	NHS dental charges fraud	£73 million
	Student finance fraud	£31 million
	Pension fraud	£13.7 million
	National Savings and Investments fraud	£0.40 million

Fraud against central government constitutes any frauds against central government spend outside the tax and benefits systems. NFA's current estimate of loss is £2.6 billion.

² The tax gap is the difference between the amount that is due and the amount that is collected.

³ HMRC (2012) Measuring Tax Gaps. Available at: www.hmrc.gov.uk/stats/mtg-2012.pdf

⁴ Department for Transport (2011), *Vehicle Excise Duty Evasion 2011*. Available at: www.dft.gov.uk/statistics/releases/vehicle-excise-duty-evasion-estimates-2011

This figure includes:

- published estimates of **NHS dental charges (£73 million), patient charges evasion (£156 million) and television licence fee evasion (£204 million)**;
- estimates of fraud based on data provided by the Audit Commission (**pension fraud £13.7 million), National Savings and Investments (£0.40 million)**, and the Student Loans Company (**student finance fraud, £31 million)**;
- supplemented with estimates of fraud produced by the NFA against **grants (£504 million), payroll (£181 million) and procurement (£1.4 billion) spend.**

Since April 2011 central government departments have been required to complete Quarterly Data Summaries (QDSs⁵). QDS are published on a quarterly basis by HM Treasury and include, within the common areas of spend, information on fraud, error and debt.

Local government

£2.1 billion

Confidence in estimate	Fraud Type	Fraud Loss
	Housing tenancy fraud	£845 million
	Procurement fraud	£876 million
	Payroll fraud	£154 million
	Council tax fraud	£133 million
	Blue Badge Scheme misuse	£46 million
	Grant fraud	£35 million
	Pension fraud	£7.1 million

Fraud against local government is committed against all types of local authority spend including on payroll, goods and services, as well as against the local taxes and benefits or services administered at a local level.

The current estimate of fraud against local government is £2.1 billion. Similar to fraud against central government, this figure comprises:

- estimates of loss due to **grants (£35 million), payroll (£154 million), pension fraud (£7.1 million) and procurement (£876 million)**;
- supplemented by estimates of loss due to fraudulent **council tax discounts and exemptions (£133 million), Blue Badge Scheme abuse (£46 million) and housing tenancy fraud (£845 million).**

⁵ HM Treasury Business Plan Quarterly Data Summaries. Available at: <http://data.gov.uk/dataset/hmt-business-plan-quarterly-data-summary-qds>

Benefits and tax credits systems*£1.9 billion*

Confidence in estimate	Fraud Type	Fraud Loss
	Benefit fraud	£1.2 billion
	Tax credits fraud	£670 million

In November 2012 the Department for Work and Pensions (DWP) published final estimates of benefit fraud and error for 2011-12,⁶ estimating annual fraud and error overpayments to be £3.4 billion. Of this, £1.2 billion was lost because of fraud overpayments in the **benefit system**, representing 0.7 per cent of £159.2 billion worth of benefit expenditure. Of the £1.2 billion benefit fraud loss, Housing Benefit remains the largest area of fraud overpayments, at £350 million in 2011-12, Income Support (£180million), Jobseeker's Allowance (£150million) followed by Pension Credit (£140million), Carer's Allowance (£70million), Disability Living Allowance (£60million) and Incapacity Benefit (£10million) respectively.

HMRC undertakes an error and fraud analytical programme, which helps to provide an understanding of the overall level of fraud and error within the **Tax Credit** system. Based on the findings of this programme HMRC's estimate of the level of tax credits fraud favouring the claimant in 2010-11 is £670 million.⁷

⁶ Department for Work and Pensions, 2012, Fraud and Error in the Benefit System: 2011/12 Estimates November 2012. Available at: http://statistics.dwp.gov.uk/asd/asd2/index.php?page=fraud_error

⁷ HMRC Child and Working Tax Credits Error and Fraud Statistics 2010-11. Available at: www.hmrc.gov.uk/stats/personal-tax-credits/cwtcredits-error1011.pdf.

Private sector

£21.2 billion

Confidence in estimate	Victim	Identified	Hidden	Total fraud loss
	Small enterprises (1-49 employees)	£4.6bn	£3.1bn	£7.7bn
	Medium enterprises (50-249 employees)	£44m	£1.4bn	£1.5bn
	Large enterprises (250+ employees)	£555m	£6.1bn	£6.6bn
	Financial and Insurance activities	£515m	£4.9bn	£5.4bn

Fraud against the private sector is any type of fraud where the victim is a private business. There are various types of fraud that businesses can suffer, which may be conducted internally (such as an employee claiming for false expenses) or externally (such as a supplier making a fraudulent payment claim for goods or services that were not delivered). The NFA's private sector fraud estimate is not an estimate of 'corporate fraud', a term that is often used to refer to fraud perpetrated by large businesses (though, of course, fraud may be committed by one business against another).

According to the latest 2012 UK business population estimates published by the Department for Business, Innovation and Skills' (BIS) Enterprise Directorate,⁸ the total turnover of the UK private sector across all business sizes is £3.1 trillion (or £2.9 trillion excluding 'sole traders'). This figure does not include the 'financial and insurance activities' sector,⁹ for which comparable data is unavailable to identify a comparable fraud loss. For this sector, alternative figures were used to produce an estimate, see page 19.

To obtain a figure for the private sector a quota sample survey of 500 small, medium and large businesses (excluding 'sole traders' and the 'financial and insurance activities sector') was undertaken. The research was undertaken by GfK NOP who were commissioned to provide an indicative confidence level of +/-4.4 per cent if the survey was treated as a random probability design (see annex 1 for method and explanation of private sector estimates).

Businesses were contacted by telephone. The person best placed to answer questions about fraud was requested to complete the interview. This is reflected in the high level of seniority of respondents – 75 per cent were chief executives, directors, owners or senior managers. Over 90 per cent said that they have procedures to prevent fraud and protect themselves from it. However, 27 per cent (136 respondents) said that they were a victim of fraud in the last financial year. Large businesses (36%) were more likely to be a victim of fraud than medium (23%) or small (13%) businesses. The most common

⁸ BIS Business Population Estimates For The UK And Regions 2012. Available at: <https://www.gov.uk/government/publications/bis-business-population-estimates>

⁹ BIS assigns businesses into 'Standard Industrial Classification' (SIC) categories. 'Financial and insurance activities' sector falls under 'Section K', see: <https://www.gov.uk/government/publications/bis-business-population-estimates>

fraud types were payment/banking fraud (69%), accounting fraud (26%) and procurement fraud (21%). The majority, (86%) of victims suffered fraud committed externally, while 56 per cent suffered fraud committed internally (with 40% experiencing both). More than one third (36%) of victims said that they experienced cyber-enabled fraud whilst 49 per cent¹⁰ of victims said that they suffered insider-enabled fraud (see 'Fraud by enabler' section, insider-enabled fraud and cyber-enabled fraud for further discussion on these 'enablers' of fraud).

The survey data suggest that of those victims that actually suffered financial loss (that is excluding those that were able to recover their loss or did not know about the loss) an estimated £5.2 billion may have been lost to fraud during the last financial year. This equates to 0.18 per cent of UK business turnover when extrapolated to all businesses (excluding those from the 'financial and insurance activities' sector, and 'sole traders'). Broken down by size of organisation, it is estimated that in the last financial year (2011/12) small businesses lost £4.6 billion (0.53% of small business turnover), medium-sized businesses lost £45 million (0.01% of medium business turnover) and large businesses lost £555 million (0.03% of large business turnover). It should be noted that the small business detected fraud loss estimate contains two rather high fraud loss responses, which have increased the average significantly. Whilst these may be regarded as 'outliers', upon further qualitative analysis of these interviews, the responses given were identified as valid. The NFA was consequently confident that there was no respondent error. They have therefore been included in the estimate to capture similar levels of loss, although the NFA cannot be sure how representative the losses were of all small businesses (see annex 1 for figures if outliers were removed).

In order to calculate an estimate of private sector fraud for the AFI that takes into account possible hidden fraud (not just fraud that has been identified), respondents were also asked to provide an estimate of the proportion of their annual turnover that they think may be lost to fraud that is undetected. The vast majority (83%, 417 respondents) provided an estimate, and two-thirds of these (67%, 278 respondents) stated that they were either 'sure' or 'very sure' in their estimate. Based on these respondents only, in the last financial year (2011/12) the private sector lost an estimated £10.7 billion to hidden or undetected fraud (when extrapolated to all businesses, excluding those from the 'financial and insurance activities' sector, and 'sole traders'). This equates to 0.36 per cent of their turnover of £2.9 trillion. Broken down by size of business, it is estimated that small businesses lost £3.1 billion (0.36% of their turnover), medium businesses lost £1.4 billion (0.32% of their turnover) and large businesses lost £6.1 billion (0.38% of turnover).

When added to detected fraud, it is estimated that £15.9 billion (0.54% of the £2.9 trillion turnover of businesses, excluding those from the 'financial and insurance activities' sector and 'sole traders') was lost to fraud during 2011/12.

This is in the context of the Home Office published headline findings from the 2012 Commercial Victimization Survey (CVS)¹¹ of crime against businesses, which includes fraud against businesses. The CVS has various methodological and coverage differences with the NFA's research and is

¹⁰ 'Insider-enabled fraud' has a wider scope than 'internal fraud' so it would be reasonable to expect that the former would produce a higher percentage, not a lower one. This suggests that there may have been some respondent ambiguity regarding the terminology.

¹¹ See: <http://www.homeoffice.gov.uk/publications/science-research-statistics/research-statistics/crime-research/crime-business-prem-2012/methodology> for full methodology details.

not comparable. The CVS samples businesses premises within four specific industry sectors – manufacturing; wholesale and retail trade; transportation and storage; and accommodation and food services activities. The CVS data reveals that the percentage of premises experiencing fraud in the last year ranges from 13 per cent of wholesale and retail premises to 5 per cent of manufacturing premises.¹²

Financial and insurance activities

Confidence in estimate	Fraud Type	Fraud Loss
	Financial Services	£5.4 billion

As outlined above, the Financial and Insurance activities sector was not included in the private sector survey. Organisations in this sector do not have comparable turnovers¹³, so could not provide comparable fraud loss percentage estimates. The estimate of fraud against the Financial and Insurance activities sector has therefore been calculated using identified losses against insurance, mortgage and retail banking fraud and an estimate of hidden fraud losses based on assumptions (see annex 2).

The identified fraud losses in the Financial and Insurance activities include £2.1 billion of insurance fraud, £1 billion mortgage fraud and £475 million of retail banking fraud. This is clearly an under estimate as it does not include unknown fraud losses that have not been identified.

The Office for National Statistics (ONS) produces statistics on gross domestic product (GDP). It has provided the NFA with an estimate of private sector GDP, based on taking the weights of the industry sectors that are wholly private sector and adding a percentage of the weight from industries that have a combined market and non-market element (For example, recreation or education). Based on this method approximately 78 per cent of GDP is accounted for by the private sector. Excluding Financial and Insurance activities (defined as division 64-66 of the Standard Industrial Classification (SIC)) approximately 67 per cent of GDP is accounted for by non Financial private sector organisations. This leaves 11 per cent of GDP to be accounted for by Financial Services (ONS – 2013).

Hidden fraud loss within the private sector (not including FS) is £10.7 billion; if this represents 67 per cent of GDP hidden fraud loss, Financial and Insurance activities, representing 11 per cent of GDP, might have undetected fraud losses estimated to be £1.8bn.

The overall Financial and Insurance activities fraud loss estimate is £5.4 billion, whilst the entire private sector fraud loss is estimated to be £21.2 billion. Please see below qualitative findings that aim to explain the context of this figure, which may be an under-representation of fraud losses.

¹² Data on fraud cost are collected in the CVS and it is intended to be published in 2013.

¹³ Turnover for the financial sector (SIC2007 Section K) is excluded from the Business Population Estimates, because it is not available on the Inter-departmental Business Register on a consistent basis with other sectors. Therefore the BIS turnover estimates for Financial and Insurance services are not comparable to the turnover for other sectors.

Case study 1

One company, which had previously encountered no instances of fraud more significant than the occasional bounced cheque, had in the last two years become the victim of a number of incidents of business identity fraud, whereby goods were ordered in the company name by a person or persons unknown. The first the organisation itself knew about this was when it received invoices from European and UK suppliers for goods that it had neither ordered nor received. The invoices were contested, yet the fraudulent activity has caused significant indirect costs. About £50,000 was incurred in legal fees for representation in court, fighting cases against the company for non-payment, and there was an unquantifiable level of damage to the company's reputation, as a result of being blacklisted in some countries for alleged non-payment of bills, as well as directors' time spent addressing the issue.

"I think the point here is that Companies Acts have made it very easy to find out details of companies. They can easily get the names of company directors, company registration number, VAT registration number, company details – it's all available...it's all too simple. [...] Until something like this starts hitting you, you don't know how vulnerable you are."

Measures were put in place in order to prevent further instances of fraud of this kind. Should any delivery vehicle that is not expected arrive on company premises, procedures are now in place so that the vehicle is photographed, the registration number recorded, delivery notes photocopied, and the police called on a fast response number. In addition, all suppliers were notified that the company's correct new business name and address be used on every delivery note or invoice. Any incorrect paperwork is rejected, even from bona fide companies, since the fraudsters were observed to use slightly differing details. However, it is too soon at this point to know what the outcome is of these measures.

[GfK NOP Private sector study]

Qualitative findings

Qualitative research was undertaken with 45 private sector organisations to understand better the considerations for estimating fraud loss in the area and produced interesting findings.

- Many organisations that had made an estimate of hidden fraud in the quantitative survey felt that it was too difficult to place a precise figure on an activity they did not know about – in some cases respondents felt that the figure could be higher or lower than the one they had given in the survey.
- There were victims that felt that they may have more hidden fraud occurring than they originally had considered for the quantitative survey. For example organisations that said that they were not a victim of fraud but since then have thought about examples, such as loss of employee hours and exaggerating expenses, of low level theft.
- However, the majority of organisations were confident that the controls they had in place meant that if any hidden fraud was occurring, it must be at a low level.
- This was emphasised by the fact that where 'actual frauds' were found, they were usually because of a current policy or process that was in place, for example, spot checking of expenses or a whistle blowing policy.

- The significance of a fraud to an organisation was dependent upon the length of time that the fraud was allowed to continue and the amount that was lost.
- The majority of organisations tolerated low level expenses fraud for example because they did not see a negative impact on their turnover (see Case Study 2).
- The cost of fraud to a business is also dependent on the type of fraud. For example, companies losing money due to cheque fraud and credit card fraud perpetrated against company cheques and credit cards were usually reimbursed by the bank. Consequently, though time and cost are expended in obtaining redress, this was not felt to be a loss to the organisation but to the bank. However, losses due to fraud perpetrated internally were considered to be potentially harder to recover.

Case study 2

A large manufacturing company based in West London felt that it had low level-hidden fraud perpetrated by its factory staff. The organisation had been having problems with their old clocking-in card system, which was being abused by the factory employees; although a “no tolerance” policy was applied to anyone caught doing this. The company replaced the card system with a finger scanning system. This proved effective in reducing the number of hours that employees claimed to be working and so reduced the company’s wage bill.

In contrast to the “no tolerance” approach taken towards employee hour theft, the company reported that it probably tolerated a small amount of exaggeration of expenses from their sales staff. There were two key reasons for this small amount of toleration:

- the difficulty in trying to prove the fraud element of a claim, this can be very difficult if it’s just £1-2 here or there.
- the consequence of proving that a salesperson had claimed a few pounds more than they were entitled to was that the organisation would have to let that individual go, which could cost it a lot more than it had lost from the expenses.

[GfK NOP Private sector study]

Charity sector

£147 million

Confidence in estimate	Victim (Income band)	Identified	Hidden	Total fraud loss
	Up to £100,000	£1 million	£4 million	£5 million
	£100,001-£500,000	£11 million	£5 million	£16 million
	£500,001-£5 million	£14 million	£9 million	£23 million
	Over £5 million	£4 million	£99 million	£103 million

Charity fraud is any fraud in which the victim is a charity. There are various types of fraud that a charity can suffer, which may be conducted internally (such as a charity employee diverting donations to their own bank account) or externally (for example, someone obtaining grant funding from a charity on false pretences).

Case study 3

An individual gained employment under false pretences in the accounts section of a small charity. During 6 months, he stole £34,796 through fraudulent debit card use.

It was revealed that he used the charity's debit card to top up a personal credit card and to pay for impotency drugs, a subscription to a dating website, his council tax bill and a stay at a London hotel. He also used the debit card to withdraw cash totalling £15,900.

When sentenced, the judge added £10,000 to his illegal gains to include wages earned under false pretences. This totalled a fraud loss of £44,700.

The individual was sentenced to four years in prison in January 2013.

In December 2012 the NFA conducted an online survey amongst charities in Great Britain with an annual income of more than £100,000. The sample was obtained from the registers held by the Charity Commission and Office of the Scottish Charity Regulator (OSCR) respectively.¹⁴ Together, charities with an income of £100,000+ represent 96.5 per cent of the total income of all charities across Great Britain (£65.6 billion of the total income of £68 billion).¹⁵ For this reason, the survey responses of these charities are particularly valid for producing financial estimates, such as when attempting to extrapolate an estimate of charity fraud loss across the sector.

A number of changes to the research design were made compared with last year to improve the validity and reliability of data collected and, therefore, increase confidence in the estimate produced. Analysis of last year's results showed that fraud suffered by individuals personally could be conflated with charity fraud experienced by their organisation, potentially affecting the estimate. This is particularly pertinent if a charity involves one or two people.

Therefore, given that the vast majority of income goes to the £100,000+ charities, the NFA did not sample charities with an income less than £100,000 a year¹⁶ in order to focus on the financial estimate. Instead the number of larger income charities in the sample was increased. 'Sole traders' were omitted from the private sector survey sample on the same premise (see annex 1). This, of course, is not to suggest that smaller, lower income charities do not experience fraud or are not at risk from fraud, it is known that they do and are. In order to recognise this, fraud against small charities is included in the overall estimate on the assumption that they may experience the same indicative level of fraud loss of their income as the larger charities. The questionnaire itself was also improved through rewording some of the questions and adding extra explanatory text of key terms to reduce ambiguity for respondents. The aim was to have increased confidence in the reliability of the data collected compared with last year. Further information can be found in annex 1 of this report.

¹⁴ The NFA was not able to sample charities in Northern Ireland as charity registration does not currently (at 2013) take place in this region.

¹⁵ According to the Charity Commission and OSCR, the total annual income of charities in Great Britain is £67.98 billion (£58.5 billion in England and Wales and £9.5 billion in Scotland – the latter excludes cross-border charities that are registered with both the Charity Commission and OSCR).

¹⁶ Charities with an income of less than £100,000 make up the vast majority (over 80%) of the total number of charities in the sector, but only 3.5% of total sector income

In total, 26,565 survey invitations were sent out and 1599 completed surveys were achieved (a response rate of 6%). Just under two thirds (63.7%) of respondents had an annual income between £100,001 and £500,000; 28.1 per cent received £500,001 to £5 million whilst the remaining 8.1 per cent received more than £5 million. The majority (81%) were registered in England or Wales and 19.3 per cent were Scottish charities. The invitations requested that the survey be completed by the person best placed to answer questions relating to fraud, and this is reflected in the senior composition of the sample – over one half (54.1%) were chief executives or financial directors/officers.

The survey collected data on:

- attitudes to fraud;
- resilience to fraud (including measures taken to prevent it);
- levels of identified fraud;
- types of fraud suffered: and
- estimated undetected fraud.

Most respondents agreed, or strongly agreed, that their organisation is effective at preventing fraud (83.1%) and detecting fraud (74.6%), whilst nearly nine-tenths (88.4%) seek to design out weakness in process and systems that may allow fraud to take place. One fifth (21%) said they had attempted to measure their fraud loss in the last financial year.

Nearly one in ten (9.2%) charities with an income of over £100,000 a year reported that they had been a victim of fraud in the last financial year (2011/12). The most common types of fraud suffered amongst these victims were payment and banking fraud (47%), accounting fraud (14.8%) and identity fraud (14.1%). Over two-thirds (70.7%) of victims experienced fraud externally, whilst 31.3 per cent suffered internal fraud. The frauds suffered were enabled in a number of ways. For example, 13.6 per cent of victims said that they had experienced cyber-enabled fraud, whilst 23.1 per cent succumbed to insider-enabled fraud¹⁷.

The survey data suggests that of those victims that actually suffered financial loss (excluding those that were able to recover their loss), an estimated £28.7 million may have been lost to fraud during the last financial year (when extrapolated to all charities in Great Britain with an annual income of £100,000+). This equates to 0.04 per cent of the income of all £100,000+ charities.

In order to calculate an estimate of charity fraud for the AFI that takes into account possible hidden frauds (not just those that have been identified), respondents were also asked to provide an estimate of the percentage of their income that they think may be lost to fraud that is undetected. More than one-half (56.3%, 901 respondents) provided an estimate, of which over three-quarters (77.9%, 702 respondents) stated that they were either 'sure' or 'very sure' in their estimate. Based on these respondents only, it is estimated that in the last financial year 2011/12 £100,000+ income charities lost £113.4 million (when extrapolated to all charities in Great Britain with an income of £100,000+). This equates to 0.17 per cent of the income of all £100,000+ charities. When added to identified fraud, this amounts to an estimated £142.1 million (0.22% of the income of all charities with income of £100,000+) lost to fraud during 2011/12. On the assumption that smaller charities may be losing a similar proportion of their income to fraud, it is estimated that charities of all income sizes lost £147.3 million to fraud during 2011/12.

¹⁷ Further analysis can be found in the 'Fraud by enabler' section (page 26).

Individuals

£9.1 billion

Confidence in estimate	Fraud type	Fraud loss
	Mass-marketing fraud	£3.5 billion
	Identity fraud	£3.3 billion
	Online ticket fraud	£1.5 billion
	Private rental property fraud	£755 million
	Pre-payment meter scams	£2.7 million

As well as the fraud risks faced by organisations, fraud is suffered everyday by individuals in the UK. Often the impact is devastating, both financially and emotionally.

The NFA's estimate of fraud against UK individuals is **£9.1 billion** per annum, based on estimates (see fraud by type) on the scale of:

- **mass-marketing fraud (£3.5 billion);**
- **identity fraud (£3.3 billion);**
- **online ticket fraud (£1.5 billion);**
- **private rental property fraud (£755 million);**
- and in addition, **pre-payment meter scams (£2.7 million).**

According to ONS¹⁸, the UK adult population is 49.1 million with an average income per head per household of £17,993¹⁹ per annum. By applying the estimated fraud loss for individuals of £9.1 billion to the total income of the UK population, it is estimated that 1.03 per cent of the UK adult population's income²⁰ is lost to fraud.

¹⁸ ONS UK Population statistics. Available at: <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-231847>

¹⁹ ONS (2012) The economic position of households Q3 2012. Available at: <http://www.ons.gov.uk/ons/rel/hsa/the-economic-position-of-households/q3-2012/index.html>

²⁰ Real actual household income consists of wages and salaries, income received by households from pensions and benefits; share dividends and, net interest; self-employment income after taxation; and social contributions (which are known as real household disposable income), plus the implied value to the household of government services such as education and healthcare

How do the sector estimates compare

As the research methodologies for some of the sector estimates have evolved and developed, it is useful to compare the percentage fraud losses identified and speculated within the different sectors as part of the validation process for the estimates. Table 1 below outlines these.

Table 1: A comparison of the percentage fraud losses, both identified and hidden, within the different sectors, UK

Sector	Identified percentage fraud loss	Hidden percentage fraud loss
Charity	0.04	0.17
Individuals	1.03	n/a
Private	0.18	0.36
Public	0.13	3.63

Levels of fraud loss are variable across the different sectors and amongst individuals. Detected levels of fraud average 0.18 per cent of turnover amongst the private sector (excluding financial and insurance activities and sole traders), 0.04 per cent of income amongst the charity sector, 0.13 per cent of receipts in the public sector²¹ and 1.03 per cent amongst individuals. Undetected levels of fraud loss have been estimated at 0.17 per cent of charities' income, 3.63% of the public sector's receipts²² and 0.36 per cent of the private sector turnover (excluding financial and insurance activities and sole traders). As a proportion of their income, individuals appear to experience higher identified losses compared with private and charity victims of fraud.

²¹ Fraud is very well measured in the public sector compared to the other sectors. The difference in figures between sectors might be reflective of this. These figures are based on HMT national statistics on Departmental expenditure. See: <https://www.gov.uk/government/publications/public-sector-finance-statistics>

²² Ibid

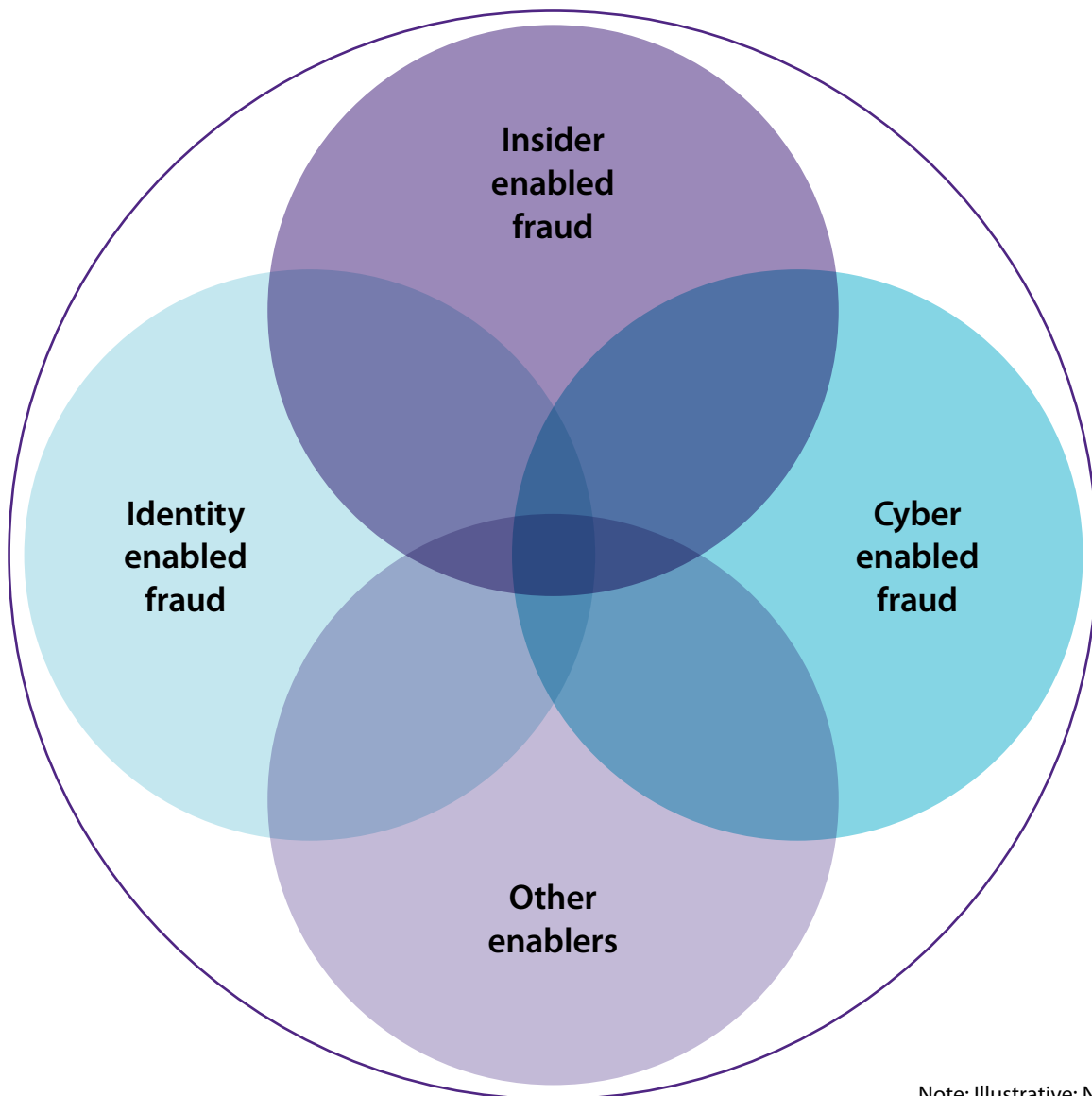
Fraud by enabler

In partnership with the counter-fraud community, the National Fraud Authority's (NFA's) work to understand better the fraud threat is increasingly looking to identify and where possible to quantify, the common enablers that facilitate many types of fraud to occur.

Fraud enablers cross-cut the fraud landscape, and are used to defraud victims of all types, through many types of fraud. There are also varying degrees of overlap between fraud enablers, which poses further challenges for quantifying their impact. For example, the individual fraud loss estimate and the organised crime group estimate both include figures on retail banking fraud.

This section outlines the measurement work that has been undertaken to quantify the scale and prevalence of certain enablers; and where possible to attribute a fraud loss amount.

Figure 3: Key fraud enablers



Note: Illustrative: Not to scale

Insider-enabled fraud

'Insider-enabled' fraud refers to any fraud event to which an insider's access to the organisation's assets and systems, or ability to influence the outcomes of organisational processes, is integral to being able to conduct the fraud. An insider can be anyone with this access or ability, most obviously employees and directors, but also volunteers, consultants and contractors.

Insider-enabled fraud is wide ranging and can include the following:

- Fraud against the organisation, often described as 'staff fraud', 'employee fraud' or 'internal fraud'. An example is when an employee submits a false expenses claim.
- Frauds against the organisation when the insider colludes with an outside accomplice(s). For example, a finance manager authorising payment of a false invoice from a supplier for non-existent works in exchange for a 'kickback' payment.
- Frauds against an outside entity. For example, an employee stealing a database containing personal details of customers, which is used by, perhaps sold to, a criminal gang to obtain money, credit, goods or services fraudulently from other organisations, such as bank accounts, loans and mobile phone contracts.

Case study 4

Insider enabled fraud

The Chief Executive Officer of a small firm providing professional services referred to an incident involving a client organisation that they had been providing services to. The client organisation had experienced a spate of cheque frauds going back over the preceding six months in which approximately £9,000 had been stolen. It was eventually picked up that the company's Financial Director had been leaving the company cheque book out on his desk at lunch times and overnight. He had not considered there to be any threat from doing this. The participant perceived this act of negligence as enabling the employees to steal from the organisation.

[GfK NOP Private sector study]

Insiders are responsible for some of the biggest frauds ever recorded. One of the most infamous cases is that of Nick Leeson, whose unauthorised trading (which lay undetected for years) resulted in the collapse of his employer, Barings Bank, in 1995. Another example is of unauthorised trading by Kweku Adoboli in 2011, which resulted in the Swiss bank UBS losing \$2 billion.

Analysis from the latest published fraud research evidences the significance of insiders in enabling fraud:

- Over one-third (34%) of UK respondents to PricewaterhouseCoopers' 2011 *Global Economic Crime Survey*,²³ a biennial study of economic crime across sectors and industries worldwide, said that employees were responsible for their largest fraud detected in the last year. Globally, two-thirds (67%) of public sector respondents said that their largest fraud was perpetrated by an employee.²⁴

²³ PriceWaterhouseCoopers (2011) Global Economic Crime Survey – UK Report. Available at: <http://www.pwc.co.uk/eng/publications/global-economic-crime-survey-2011-uk-report.html>

²⁴ PriceWaterhouseCoopers (2011) Fighting Fraud in Government. Available at: <http://www.pwc.com/gx/en/economic-crime-survey/industry-supplements/fighting-fraud-in-government.jhtml>

- KROLL's annual Global Fraud Report,²⁵ a survey of over 839 senior executives worldwide during 2012, states that two-thirds (67%) of fraud globally (in which the perpetrator is known) is insider fraud, up from 55 per cent in 2010 and 60 per cent in 2011.
- CIFAS' Staff Fraud Database (SFD) data sharing scheme,²⁶ which allows employers to share confirmed cases of fraud involving staff, has recorded over 1,000 cases since 2008. During 2012, 539 cases were recorded (an increase of 42.6 per cent compared with the 378 cases recorded during 2011).²⁷ A variety of fraud types have been recorded, predominantly 'dishonest action by staff to obtain a benefit by theft or deception', which represented one-half of all cases (268).
- CIFAS also reported on cases of employment application fraud (34) and attempted employment application fraud (171),²⁸ demonstrating the importance of effective staff vetting procedures in mitigating the insider fraud risk. This is underpinned by 2011 research with the Serious Organised Crime Agency (SOCA) which found that around 10 per cent of employees dismissed for fraud on the CIFAS staff fraud database were 'high risk', with 4.5 per cent assessed as being involved in, or likely to be involved in, serious organised crime (please see p33 for fraud perpetrated by organised crime groups).²⁹
- The Audit Commission's 2012 '*Protecting the Public Purse*' report found that in 2011/12 there were 1,459 cases of internal fraud (1.2% of all cases). The value of these frauds was £15.5 million. The average loss of these internal frauds (£10,619) was more than 8 times higher than an external fraud (£1,315).³⁰ This loss relates to identified fraud in local government in England.
- Analysis of NFA primary research conducted during December 2012 and January 2013³¹ reveals that both the charity and private sectors suffered a significant amount of insider-enabled fraud over the last financial year.
- Of the 9.2 per cent of charities that were a victim of fraud during the 2011/12 financial year, nearly one-quarter (23.1 per cent) said that they had suffered insider-enabled fraud but only 2.9 per cent of these said that there was no actual financial loss (for example, they were able to recover the loss from the fraudster or from their bank). This contrasts with the experience of cyber-enabled charity fraud victims where nearly two-thirds (65 per cent) answered that they suffered no actual loss (although this is based on small base sizes).
- Of the 27 per cent of businesses that were a victim of fraud during 2011/12, nearly half (49%) said they had suffered insider-enabled fraud but none of these said they were able to recover the financial loss. This contrasts with the experience of cyber-enabled private sector fraud victims where 34 per cent answered that they suffered no actual loss, reflecting the findings of the charity survey and illustrating the impact of insider-enabled fraud across sectors (as above, this is based on a small base size).

²⁵ KROLL (2012) Global Fraud Report 2012/13. Available at: <http://www.krolladvisory.com/insights-reports/global-fraud-reports/>

²⁶ CIFAS (2012) Staff Fraudscape, May 2012. Available at: http://www.cifas.org.uk/secure/contentPORT/uploads/documents/CIFAS%20Reports/External-0-StaffFraudscape_2012.pdf

²⁷ See: http://www.cifas.org.uk/stafffraud_annual_janthirteen

²⁸ See: http://www.cifas.org.uk/stafffraud_annual_janthirteen

²⁹ See: http://www.cifas.org.uk/organised_crime_sevenovember

³⁰ Audit Commission, (2012) Protecting the Public Purse. Available at: <http://www.audit-commission.gov.uk/fraud/protecting-the-public-purse/Pages/protecting-the-public-purse-2012.aspx>

³¹ See the technical note on page 57 for further details on the survey methods used.

- It is possible that the scale of insider-enabled fraud could be higher than these findings suggest. When respondents were asked *“Thinking of ALL fraud that your (business/charity) has suffered in the last financial year 2011/12, was any of it committed internally?”* 31.3 per cent of charity fraud victims said yes (compared with 23.1% for insider-enabled fraud) and 56 per cent of business fraud victims said yes (compared with 49% for insider-enabled fraud). ‘Insider-enabled fraud’ has a wider scope than ‘internal fraud’ so it would be reasonable to expect that the former would produce a higher percentage, not a lower one. This has been explored in the qualitative private sector research and it looks like respondents perceive insider-enabled fraud as potentially involving more insidious and serious activities than internal fraud.
- Fraud generally is under-reported and insider-enabled fraud is no exception. The findings of both the charity and private sector surveys suggest that around one-third of victims (32.4% charity, 30% private) don’t report any insider-enabled frauds externally (for example to the police or Action Fraud) with a similar number (29.4% charity, 33% private) only reporting some of them.

Identity fraud

£3.3 billion (individuals only)

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

Identity fraud occurs when someone’s personal information is used by someone else without their permission to obtain money, credit, goods or other services. Identity fraud is an enabler of other frauds, rather than a specific fraud type itself. For example, it can facilitate benefit fraud, plastic card fraud or mortgage fraud. Fraudsters will even try to use the identity of a deceased person.

Terms such as ‘identity fraud’ and ‘identity theft’ have been used interchangeably over time since there has been no standard definition. This makes measurement and assessment of comparative estimates, of an already complex subject, very difficult.

The analysis of fraud trends during 2012 by CIFAS,³² the UK’s Fraud Prevention Service, identified the following.

- Nearly 250,000 frauds were confirmed during 2012 by CIFAS members.
- Identity fraud accounted for roughly 50 per cent of all frauds recorded in 2012.
- There was a 9 per cent increase in identity frauds, compared with 2011.
- Facility (or account) takeover fraud rose by 53% compared with the previous year. This means that those frauds where the criminal requires identity details accounted for almost 2 in 3 (65%) of all frauds recorded by CIFAS in 2012.

³² Available at: <http://www.cifas.org.uk/fraudtrendstwentytwelve>

In December 2012 the NFA completed a survey with a nationally representative sample of 4,213 UK adults to understand better the prevalence and cost of identity fraud against individuals.³³ The survey found the following:

- identity fraud is estimated to cost UK adults **£3.3 billion** during 2012;
- 8.8 per cent (4.3 million) of UK adults were a victim, with those who actually lost money (2.7 million) losing an average of £1,203 each;
- 19 per cent of UK adults had been a victim before 2012;
- overall, 27 per cent have been a victim at some point in time.

It is important to clarify that this estimate is based purely on direct losses to UK adults. It does not include losses recovered by the individual (for example, from banks – further information that includes some of these losses can be found in the section **Retail Banking**) – or any indirect costs that may have been incurred, such as responding to and repairing the impact of the frauds. Nor does it include any losses suffered by the public, private or charity sectors. Therefore, the full cost to the UK from identity fraud each year will be higher than £3.3 billion.

Whilst this estimate is of identity-fraud in which individuals are the victim, and not of all identity enabled frauds across the UK, other NFA surveys completed this year (2012-2013) illustrate how identity fraud enables attacks against organisations. For example, 14.1 per cent of charity fraud victims and 18 per cent of private sector fraud victims said they experienced identity fraud.

Cyber-enabled fraud

'Cyber-enabled' fraud refers to any type of fraud that is committed or facilitated by use of a computer or other forms of information communications technology (ICT).³⁴ Victims can be individuals or organisations (and for fraud committed against the latter, it may be conducted internally or externally). Examples of 'cyber-enabled' fraud include the following.

- Fraudulent sales via online shopping or auction websites, which may offer goods or services that are not subsequently provided to the buyer.
- Mass-marketing frauds committed using emails to distribute unsolicited communications to persuade individuals to part with money on the premise that a larger sum will be paid at a later date, such as paying an 'administration fee' to release a 'lottery prize'. Needless to say, the lottery does not exist.
- Electronic financial frauds, such as card-not-present (CNP) fraud committed online and conducted remotely where neither the cardholder (nor the card) is present (see retail banking fraud).
- Use of technology to steal personal data (such as phishing³⁵) which are then used to obtain goods, credit or services fraudulently.
- Emails to a company requesting that subsequent payment for goods should be made to a different bank account. This fraud can be enabled by phishing or hacking of email systems.

³³ Research was conducted online by Vision Critical with 4,213 UK adults aged 18+ between 14 – 17 December 2012. The results are weighted to be representative of the UK adult population.

³⁴ 'Cyber-enabled' is wide in scope. It includes all 'computer-dependent' frauds that can only be committed through use of computers and ICT, such as an 'online auction fraud' (for example, goods are won and payment sent but goods are never received). It also includes fraud that could still be carried out without the use of computers and ICT but whose scale and reach are altered by its use, such as 'mass-marketing fraud' (for example, sending unsolicited communications to obtain money from victims via emails and texts, rather than letters).

³⁵ Hacking is the exploitation of weaknesses in a computer system or network. Phishing is an attempt to obtain information via electronic communication using social engineering to appear as a trustworthy source.

Fraud is a hidden crime and it is extremely difficult to estimate the amount of fraud that is actually cyber-enabled, and even more difficult to try to measure the loss³⁶. This is because cyber-enabled fraud cuts across many of the NFA's traditional fraud type estimates so there is the risk of double-counting (for example, a procurement fraud committed online would be included in the separate procurement fraud estimate). However, the NFA can estimate the *prevalence* of cyber-enabled fraud across different victim groups, as analysis of the following sources demonstrates.

- Action Fraud, the national fraud and internet crime reporting centre, has now been rolled out across police force areas in England and Wales. This will further the NFA's understanding of cyber-enabled fraud over time, giving a more holistic perspective of detected fraud. Action Fraud records two types of cyber crime reports, cyber-enabled fraud and offences under the Computer Misuse Act. Analysis of Action Fraud data shows that from the period March 2012 to February 2013, Action Fraud received 58,662 cyber-enabled frauds and 9,898 computer misuse crime reports.³⁷ Cyber related reports equated to 41 per cent of all Action Fraud crime and information reports, with an average loss of £3,689.
- The NFA conducted research into mass-marketing fraud against UK adults in January 2012 (see the mass-marketing fraud section). Three-quarters of respondents received unsolicited communications in the 12 months previously, with the vast majority receiving emails.
- Analysis of NFA primary research conducted during December 2012 and January 2013 reveals that both the charity and private sectors suffered cyber-enabled fraud over the last financial year.³⁸
- The 2013 AFI estimates that the charity sector suffered detected fraud losses of £29.7 million in the last financial year (2011/12), with a further £117.6 million of estimated hidden loss. During this period 9.2 per cent of charities surveyed were a victim of fraud and about one in eight victims said that they had suffered cyber-enabled fraud. The majority of cyber-enabled fraud victims said that there was no actual financial loss (for example, they were able to recover what they lost to the fraudster, from their bank, etc). This contrasts with the experience of insider-enabled charity fraud victims where only a fraction said that they suffered no actual loss.
- The 2013 AFI estimates that private sector organisations (excluding the 'financial and insurance activities' sector, and 'sole traders'³⁹) suffered detected fraud losses of £5.2 billion in 2011/12, with a further £10.7 billion of estimated hidden loss. During this period, 27 per cent of businesses surveyed were a victim of fraud and more than one-third of these said they had suffered cyber-enabled fraud. Just over one-third of cyber-enabled victims said that there was no actual financial loss to them (for example, they were able to recover the loss from the fraudster from their bank). This contrasts with the experience of insider-enabled private sector fraud victims where all reported some actual loss.
- Although the 2012 Commercial Victimization Survey (CVS)⁴⁰ covers online crime, not just online fraud, it should be noted that the findings suggest that there were 180,000 incidents of online crime against businesses across the four industry sectors covered by the survey in the 12 months prior to interview; of which the vast majority (75%) were computer viruses (135,000). Across the industries, eight per cent of business experienced at least one type of online crime.

³⁶ The difficulties of measuring cyber-enabled fraud are noted by Anderson et al. (2012) Measuring the Cost of Cybercrime. Available at: http://weis2012.econinfosec.org/papers/Anderson_WEIS2012.pdf

³⁷ Note that Action Fraud was still being rolled out to local police forces, so these figures are not representative of the entirety of England and Wales.

³⁸ Caution is required here as the sample sizes are quite small – see annex 1 for further information on the methods used.

³⁹ See the private sector section for further details.

⁴⁰ See page 18 for further information about the CVS.

- Cyber-enabled fraud is also no exception to under-reporting. The findings of both the charity and private sector surveys suggest that one-quarter of cyber-enabled fraud victims don't report any cyber-enabled frauds externally (for example to the police or Action Fraud), with similar numbers only reporting some of them. Some of the reasons given by respondents for not reporting include *"dealt with by the bank"*, *"dealt with internally"*, *"too costly to pursue"* and *"thought the fraud was too small"*.

Fraud perpetrated by organised crime groups

£8.9 billion – £18.9 billion

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	UK

Organised crime involves individuals, normally working with others, with the capacity and capability to commit serious crime on a continuing basis, which includes elements of planning, control and coordination, and benefits those involved. The motivation is often, but not always, financial gain. Organised criminals who work together for the duration of a particular criminal activity or activities are called an organised crime group (OCG).⁴¹

OCGs pose a significant threat to the UK. Fraud is a significant element of this threat either as the primary activity of an OCG, or as an enabler/funding stream for other serious crimes.

In October 2012 analysis of the organised crime group mapping (OCGM) data held by the National Fraud Intelligence Bureau (NFIB) suggested that of the OCGs known to the authorities and considered to be nationally significant, 67 per cent are involved with fraud as a crime category (with 85% involved in specialist money laundering, 77% drugs and 67% violent crime). The analysis also confirmed that there are 7,503 OCGs considered to be active in the UK. Of these, 1,365 are linked to some form of fraudulent activity. Counter-fraud professionals believe these figures significantly under-represent the true involvement of OCGs in fraud.

OCGs that are assessed to be involved in fraud are linked to mortgage fraud, tax fraud, benefit fraud, identity theft, payment card crime and insurance fraud. One-quarter (25%) of these OCGs have realised group assets of more than £1 million, but these are not exclusively from fraud.

OCGs linked to fraud have been identified and are being managed by law enforcement agencies in every region of the country. Fraud is a transnational crime and 462 OCGs are assessed to have some form of international link, be this through their geographical base or through the reach of their criminal activities.

The NFA estimate of fraud perpetrated by organised criminals has been refreshed. The methodology uses existing estimates of fraud loss, and calculates the proportion that might be attributable to OCGs by fraud type. These estimates derive from consultation with industry experts and law enforcement and are based on management assumptions and judgements; to provide an illustrative indication of loss. Fraud loss because of organised crime activity now stands at £8.9 billion of the £24 billion that

⁴¹ www.soca.gov.uk

can be mapped through fraud loss type to organised groups. Areas of loss captured include tax and benefits fraud; retail banking, insurance, mortgage, telecommunications and mass-marketing fraud (see individual estimates in 'Fraud by type' section).

It is not yet possible to identify the level of OCG activity against every fraud type or victim. Although, if it is assumed that the 37 per cent loss for the above identifiable fraud estimate is reflective of fraud losses due to organised crime in the rest of our fraud loss estimate, an additional £9.9 billion might be lost to fraud. This could tentatively equate to a total fraud loss of £18.9 billion.

Case study 5

Organised Crime Group Fraud

A large organisation in the wholesale and retail trade identified its main risk as organised crime gangs. *"So an example of that would be Chinese and eastern European counterfeiters, using counterfeit plastic [credit cards]. We have an awful lot of account take over... assuming someone's identification and taking over a genuine account and coming here and using it. Our website is at risk for the same reasons... people can bypass the security systems on our website... the bank usually sees them as the genuine person when they're not."*

[GfK NOP Private sector study]

Fraud by type

Benefit fraud £1.2 billion

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	E, S & W

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 rules governed by National Statistics protocols and publications. DWP has one of the most sophisticated methodologies in the public sector for measuring the level of fraud and error against annual benefit expenditure, which for the 2011/12 financial year was £159.2 billion.

Currently, 27 per cent (£43.1 billion) of all benefit expenditure is measured on a continuous basis (Income Support, Jobseeker’s Allowance, Pension Credit and Housing Benefit). Occasional ‘snapshot’ measurement exercises known as National Benefit Reviews (NBRs) account for a further 59 per cent (£93.6 billion) of benefit expenditure (State Pension, Disability Living Allowance, Incapacity Benefit and Carer’s Allowance). These exercises estimate the level of fraud over a single year, following the same process as those measured on a continuous basis. The remaining 14 per cent (£22.5 billion) of benefit expenditure is not subject to specific review. For these benefits (such as Council Tax Benefit, Statutory Sick Pay and Severe Disablement Allowance) the estimates are based on proxy measures of comparable measured benefits.

In November 2012 DWP published estimates of benefit fraud and error for 2011-12⁴², estimating annual fraud and error overpayments to be £3.4 billion. The estimate for the percentage of total benefit expenditure overpaid due to fraud in 2011/12 is 0.7 per cent, which is a decrease when compared with the 2009/10 and 2010/11 estimates, both 0.8 per cent. The overpaid value due to fraud in 2011/12 is £1.2billion, which is the same as the 2010/11 estimate.

In pure monetary terms Housing Benefit remains the largest area of fraud overpayments within the benefit system, increasing from £300 million in 2010-11 to £350 million in 2011-12. Income Support (£180 million) and Jobseeker’s Allowance (£150 million) were the next highest areas of benefit fraud overpayments in 2011/12, followed by Pension Credit (£140 million), Carer’s Allowance (£70 million), Disability Living Allowance (£60 million) and Incapacity Benefit (£10 million) respectively. Estimated fraud overpayments for the un-reviewed benefits amount to £220 million.

The level of fraud overpayments for State Pension, the highest benefit in terms of expenditure representing 47 per cent (£74.2 billion) of total benefit expenditure, was estimated to be zero per cent when it was last reviewed in 2005/06.

⁴² Department of Work and Pensions (2012) Fraud and Error in the Benefit System: Final 2011/12 Estimates, November. Available at: http://statistics.dwp.gov.uk/asd/asd2/index.php?page=fraud_error

Case study 6

Direct payment fraud

A routine investigation into concerns of direct payment fraud by investigators in Croydon Council opened the door to a much wider fraud against other council services. An individual claimed to be the carer for a Direct Payment recipient but when the council were notified that their client had passed away, the investigation found that the said individual had not only failed to notify the council of the client’s death, but had accessed the bank account of the client and stolen all of the overpaid direct payments. This amounted to £28,626. To compound the fraud he had made a timely notification to the councils housing department to tell them that his ‘partner’ had passed away and that he wished to succeed the tenancy.

Further investigation revealed that the individual was neither a direct payment carer, nor living in social housing in Croydon for which he received housing and council tax benefit but in fact was running a hotel and restaurant in Devon.

Following a 7-day trial in December 2012 he was found guilty on all charges and sentenced to 12 months custody in January 2013.

Blue Badge Scheme misuse £46 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	England

Blue badges are provided under a national scheme and offer parking concessions for people who have certain disabilities. The scheme can be a considerable help to people who would otherwise find it difficult to get access to community facilities because of the distance they might have to travel once leaving their vehicle. Using stolen or fake blue badges, or allowing others to use the badge without the badge holder being in the vehicle, is fraud.

There are an estimated 2.62 million blue badges in England.⁴² Local authorities are responsible for issuing blue badge parking permits and can charge up to £10 to issue a badge.⁴⁴

In the Annual Fraud Indicator (AFI) 2010, findings from the Department for Transport (DfT) and Blue Badge Fraud Investigation (BBFI Ltd) were used to produce an estimate of lost parking revenues resulting from misuse of the Blue Badge Scheme. According to BBFI Ltd, misuse of this scheme varies from 4 per cent to 70 per cent depending on the location of use, with an average of 20 per cent of all

⁴³ Department for Transport Blue Badge Scheme statistics 2011/12. Available at: <http://assets.dft.gov.uk/statistics/releases/blue-badge-scheme-statistics-2011-12/blue-badge-2011-12.pdf>

⁴⁴ Department for Transport (2012) The Blue Badge Scheme Local Authority Guidance (England). Available at: <http://assets.dft.gov.uk/publications/blue-badge-scheme-local-authority-guidance/blue-badge-scheme-local-authority-guidance.pdf>

blue badges in circulation being misused in some way. In busy retail areas the misuse is 40 to 60 per cent. Using average financial benefit figures published by the DfT and taking into account regional variations (such as London, metropolitan, city and town, and rural areas), the National Fraud Authority (NFA) estimated that there were around half a million blue badges misused, resulting in losses of £46 million a year.

In the absence of any further work being carried out on the costs of a Blue Badge Fraud, the losses have remained the same for the AFI 2013, at £46 million.

Counter-fraud initiatives have helped to reduce the number of fake badges in circulation and have led to an increase in the detection of deceased person’s badges.

Council tax

£133 million

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	England

Council tax fraud occurs when an individual intentionally gives incorrect or misleading information in order to pay less or no council tax.

Local authorities collect around £22 billion a year in council tax in England alone.⁴⁵ Council tax provides about one-quarter of local funding for council services such as policing and rubbish collection. There are a number of discounts or exemptions that can be claimed to reduce the amount of council tax payable for each household.

According to the Audit Commission’s report *‘Protecting the Public Purse 2011’*; four to six per cent of single person discount (SPD) claims were found to be fraudulent in 2010/11. Taking these findings as a guide, in the absence of any other work being carried out, the NFA has assumed a four per cent conservative fraud rate across all council tax discounts and exemptions.

Council tax exemptions

The NFA has calculated an annual loss in council tax exemptions using the prevalence rate identified by the Audit Commission, multiplied by the number for dwellings claiming exemptions as identified by the Department of Communities and Local Government (DCLG), by the average council tax in 2012. Based on this data, the NFA estimates that fraud in council tax exemptions costs around £33.9 million a year. The most common exemptions fraudulently claimed are for person(s) who are severely mentally impaired; student occupancy; vacant properties (empty and unfurnished for up to 6 months); and properties that are left empty by deceased persons.

⁴⁵ Department for Communities and Local Government, ‘Statistical release, Collection rates June 2012’.

Council tax discounts

Discounts are given at the council’s discretion and they can vary between 10 to 50 per cent depending on the discount claimed. For example, councils can choose to give anywhere between 10 per cent and 50 per cent discount on council tax for second homes, and 25 per cent discount for a single adult.

The NFA has calculated an annual loss in council tax discounts using the prevalence rate identified by the Audit Commission, multiplied by the average discount granted, and by the average council tax cost in 2012. Based on this data the NFA estimates that fraud in council tax discounts costs around £99.5 million. The most frequently claimed discounts are single person discounts, of which £92.5 million has been estimated as fraudulent.

The NFA therefore estimates the total value of council tax discounts and exemptions fraud are around £133 million a year.

Grant fraud £539 million (public sector)

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	UK

A grant is an award of financial assistance paid to eligible recipients for a specified purpose. There are different types of public sector grants paid out to individuals, businesses and charities. Grant-in-aid is also paid out by the public sector to non-departmental public bodies (NDPBs), executive agencies and public corporations.

Fraud risk within grant spending depends on various factors such as the type of grant recipient, the purpose of the grant, the nature of the scheme and the scale of the award. For example, funds paid to NDPBs for major capital projects may have different risks from fraud than grants paid to individuals or less well-established groups.

An analysis of Combined Online Information Service (COINS)⁴⁶ data carried out by the NFA has identified that in 2011-12 the Government spent £264 billion on grants. This figure captures social benefits; capital grants; grants abroad; grants to persons and non-profit bodies; and the grant equivalent of student lending, plus subsidies to private sector companies and public corporations.

For the purpose of calculating a grant fraud estimate, grants identified as social benefits were excluded, as fraud against this area of expenditure is already captured within benefit and tax credits fraud figures provided by HM Revenue and Customs (HMRC) and DWP. Spend relating to the grant element of student lending was removed as this area of fraud is covered as ‘student finance fraud’. Capital grants and subsidies to public corporations were also excluded, as fraud risks within these areas are relatively unknown and are likely to be low compared with other types of grants. The remaining grant expenditure (once these categories of spending have been removed) amounted to £53.9 billion in 2011-12.

⁴⁶ The Combined Online Information System (COINS) is a database of UK government expenditure provided by government departments. It is available at <http://data.gov.uk/dataset/coins>

Typically, there is wide variation in the level of fraud across various public sector grants, expenditure and income. Based on a conservative assumption that at least 1 per cent of grant spend is lost to fraud,⁴⁷ grant fraud is estimated to have cost £539 million in 2011-12. Of this, £503.7 million is estimated to have been lost by central government and £35.2 million by local government.

Caution is needed when reviewing this estimate as it only provides an illustrative figure of grant fraud in the public sector.

Housing tenancy fraud

£1.8 billion

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	E

Local authority housing tenancy fraud

£845 million

Housing tenancy fraud is the use of social housing by someone who is not entitled to occupy that home. It includes, but is not limited to, unlawful subletting, wrongful tenancy assignment and succession, failure to use a property as the principal home and use of false information in a housing application to gain a tenancy.

There are nearly 4 million social housing properties in England, with an estimated asset value of more than £180 billion. Over one-half of all social housing in England is managed by housing associations. In 2012, nearly two million families were waiting for social housing.

The Audit Commission's publication *'Protecting the Public Purse 2012' (PPP 2012)* suggests a methodology to estimate more precisely the number of council, housing association and arms length management organisation properties that are subject to tenancy fraud in England. Using this approach it is estimated that approximately 98,000 social homes in England are subject to tenancy fraud. Previous deliberately prudent estimates indicated at least 50,000 social homes were subject to such fraud, of which 47.9 per cent were local authority properties. In PPP 2012 the Audit Commission identified an average annual notional cost of £18,000 to house a family or individual in temporary accommodation. In previous AFIs, this average notional cost has been used as a multiplier to estimate the total nominal cost to the public purse of housing a tenancy fraudster. Multiplying this average cost of temporary accommodation with the new Audit Commission estimate of the number of social homes subject to tenancy fraud (which would otherwise be available for occupation), it is estimated that housing tenancy fraud costs the public purse almost £1.8 billion a year. With 47.9 per cent of the loss being borne by local authorities, this equates to a tenancy fraud loss estimate of approximately £845 million.

⁴⁷ This conservative estimate is based on what is known about fraud losses in other areas of public sector funding. Benefit fraud losses equate to 0.7% of expenditure. NHS patient charge evasion shows significant losses to the NHS (prescription – England 2%, hospital prescription – England and Wales 9.3%, optical – England and Wales 3% and dentistry – England and Wales 3.8%). See: www.nhsba.nhs.uk/CounterFraud/437.aspx#rm. NHS dental services fraud equates losses to the NHS of 3 per cent, see: www.nhsbsa.nhs.uk/3630.aspx. The Student Loans Company might be 0.08 per cent by applying the NFA's fraud loss estimate to publicly owned debt for English students and EU students studying in England, see: www.parliament.uk/briefing-papers/sn01079.pdf

There are acknowledged limitations with the use of total homelessness costs as a direct measure for tenancy fraud costs. The £18,000 multiplier for overall housing tenancy fraud loss represents a notional annual cost, not a bottom line savings figure. It should also be recognised that the new estimate of the scale of social housing fraud is in excess of the total number of families in temporary accommodation across England.

Housing tenancy fraud – housing associations

£919 million

Housing associations offer similar types of social housing as local authorities, often to people on a low income or who need extra support. Housing associations that are registered with the social housing regulator are known as private registered providers of social housing. More than one-half (52.1 per cent) of all social housing in England is managed by private registered providers. Assigning this proportion of the total loss of housing tenancy fraud (£1.76 billion) to Housing associations, it is estimated that housing tenancy fraud might cost them £919 million.

Insurance fraud

£2.1 billion

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	UK

The UK insurance industry is the largest in Europe and the third largest in the world, following the USA and Japan, accounting for 7 per cent of total worldwide premium income. It is a vital part of the UK economy, managing investments amounting to 26 per cent of the UK's total net worth and contributing £10.4 billion in taxes to the Government. Employing over 290,000 people in the UK alone, the insurance industry is also one of this country's major exporters, with almost 30 per cent of its net premium income coming from overseas business.

Insurance fraud cuts across every type of insurance. It ranges from opportunists failing to disclose their claims history when applying for cover or exaggerating claims by adding extra items to a genuine claim, to highly organised 'Crash for Cash' crime rings that contrive sometimes dangerous or even fatal road crashes and claim for phantom passengers and fictitious injuries, vehicle recovery and storage, and replacement car hire. Insurance fraud may be committed by the policyholder or a third party claiming against an insurance policy, and may be aided and abetted by suppliers and so-called professionals, for example, certificates from doctors.

Across the UK criminal gangs are organising 'Crash for Cash' scams – faking or deliberately causing thousands of 'accidents' every year to submit fraudulent insurance claims. In most collisions where a vehicle is shunted from behind, the driver of the car behind is deemed 'at fault'. The key element of a 'Crash for Cash' scam is therefore causing an accident for which the other driver can be blamed. To do so, fraudsters adopt one of three methods: the staged accident, the induced accident and the ghost accident.⁴⁸

⁴⁸ See: http://www.insurancefraudbureau.org/files/misc_pdfs/ifb_crash_for_cash_report_online.pdf

Based on figures provided by the Association of British Insurers (ABI) and the Insurance Fraud Bureau (IFB), insurance fraud is estimated to cost £2.1 billion a year. This estimate breaks down into £1.7 billion in hidden fraud loss, £392 million in organised ‘Crash for Cash’ fraud, and £39 million in identified insurance fraud (where claims are paid before they have been identified as fraudulent).

Case Study 7 below is taken from the IFB ‘Crash for Cash’ report. The IFB was set up in 2006 to clamp down on organised insurance fraud – to disrupt criminal gangs and protect consumers from the effects of fraud. At any one time, 30 to 40 criminal gangs are under investigation by the IFB.

Case study 7

Cash for Crash

Peter Burroughs, a consultant motor engineer, was charged with 11 counts of conspiracy to defraud in 2010 after he was recruited into a gang to write false vehicle reports for damage that had not occurred and for vehicles he had not even seen.

In one case an insurance company paid out £7,810 for a vehicle Burroughs declared written off – although it transpired he never actually saw the vehicle. Burroughs received a 9 month custodial sentence suspended for 12 months, a 12-month supervision order and a £1,000 fine.

[IFB ‘Crash for Cash’]

Mass-marketing fraud

£3.5 billion

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

The term ‘mass-marketing fraud’ is wide ranging and captures a number of different types of fraud. Mass-communications media (such as telephone calls, letters, emails and text messages) are used to contact, solicit and obtain money from victims.⁴⁹ Various schemes are deployed by fraudsters to dupe people via these communication channels. These range from foreign lottery and sweepstake frauds (which target individuals with false promises of prizes, provided that upfront payment is made for fictitious fees and taxes) through to romance frauds (where fraudsters feign romantic intentions towards internet daters to secure trust and affection, in the hope of ultimately obtaining money).⁵⁰

⁴⁹ International Mass-Marketing Fraud Working Group (2010) Mass-Marketing Fraud: A Threat Assessment, June 2010. Available at: www.ice.gov/doclib/cornerstone/pdf/immfta.pdf

⁵⁰ Further information on specific examples of mass-marketing fraud can be found in the 2011 NFA AFI. Available at: <http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-fraud-indicator/>

Regardless of the fraudsters' chosen method, mass-marketing frauds have two elements in common.⁵¹ Firstly, the criminals aim to defraud multiple individuals to maximise revenue. Secondly, the schemes invariably depend on persuading victims to transfer monies to the criminals in advance, and on the basis that promised goods, services or benefits would follow. These do not exist and are never delivered.

It is estimated that £3.5 billion is lost per year to mass-marketing fraud in the UK. This figure derived from research conducted in 2006 by the Office of Fair Trading (OFT)⁵² of 11,200 people (including detailed follow-up interviews with 1,900 people about their experiences of mass-marketing fraud). This is still considered the most robust figure available for mass-marketing fraud.

To supplement the above, the NFA conducted a survey in 2012 with a nationally representative sample of 4,000 UK adults to understand better how mass-marketing fraud is currently being committed.⁵³ The survey found the following.⁵⁴

- 1 million (2%) UK adults⁵⁵ sent money in reply to unsolicited communications in the last 12 months – and just under one-half (almost 500,000 people) are believed to have been defrauded as a result;
- Three-quarters of UK adults, around 37 million people, received unsolicited communication in the last 12 months. The majority were sent emails (85%). However, letters (40%), phone calls (44%) and text messages (27%) were received by significant minorities;
- 18 to 34 year-olds were more likely to receive texts than letters or phone calls, whilst the opposite was true for those aged 35 and over.

The research indicates that although the vast majority of people ignore unsolicited communications, the fraudsters' return on investment is enough to make it worth their while continuing to target the public using mass-marketing communication techniques.

⁵¹ International Mass-Marketing Fraud Working Group (2010) Mass-Marketing Fraud: A Threat Assessment, June 2010. Available at: www.ice.gov/doclib/cornerstone/pdf/immfta.pdf

⁵² OFT research on the impact of mass-marketed scams on UK consumers, December 2006. A summary of this research is available at: http://www.offt.gov.uk/shared_offt/reports/consumer_protection/oft883.pdf

⁵³ Research conducted online by Vision Critical with 4027 UK adults aged 18+ between January 3rd-9th 2012. The results are weighted to be representative of the UK adult population.

⁵⁴ The number of collected responses was not sufficiently robust to extrapolate fraud losses. The OFT research is several years old but remains the most robust estimate currently (April 2013) available.

⁵⁵ Adapted from data from the Office for National Statistics licensed under the Open Government Licence v.1.0. The ONS Population Estimates for UK, England and Wales, Scotland, and Northern Ireland – Mid 2010 show that there are 49,122,300 UK adults aged 18+. See: <http://www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/population-estimates-timeseries-1971-to-current-year/index.html>

Mortgage fraud

£1 billion

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	UK

Gross new mortgage lending in 2012 reached an estimated £143 billion, up 2 per cent from £140 billion in 2011. This makes it an attractive target for fraudsters.

Calculating a reliable estimate of mortgage fraud has been challenging for both the NFA and the mortgage lending community.

In 2010 the NFA contacted mortgage experts from lenders representing 98 per cent of the mortgage market to obtain their opinion on mortgage fraud loss during 2009. While there were differences in the opinions provided by respondents' their average estimate of fraud loss to the industry was £1 billion. In 2012, the mortgage experts were reconvened and agreed to keep the mortgage fraud loss estimate at £1 billion.

Data from National Hunter, an anti-fraud data sharing system used by some members of the financial services industry, shows that in 2012 there were 6,621 cases flagged as fraudulent, with an average advance of around £121,000. National Hunter prevented potential losses of around £800 million in 2012.⁵⁶ The types of mortgage fraud being perpetrated range from; applicants lying about 'hidden adverse' circumstances to lying on their financial information or their employment situation.

Motor finance fraud

£10.9 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

Types of motor finance fraud include:

- application fraud, where a customer gives incomplete or inaccurate information to a lender;
- conversion fraud, the fraudulent sale of a vehicle that does not belong to the seller or on which money is still owed; and
- first party fraud, where a customer makes their loan repayments using, for example, a false credit card.

The Finance Leasing Association (FLA), the leading trade association for the asset, consumer and motor finance sectors in the UK recently published updated figures for motor finance fraud. In the 12 months to September 2012, FLA members reported 747 fraud cases. The value of these cases in terms of the original loan amount was £10.9 million.

⁵⁶ Please note that this is not representative of the entire lending industry.

National Savings and Investments fraud

£0.4 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

National Savings and Investments (NS&I) is one of the largest savings organisations in the UK with 26 million customers and more than £100 billion invested. When customers invest in NS&I products, they are lending to the Government. In return the Government pays interest, stock market linked returns or prizes for Premium Bonds. NS&I offers 100 per cent security on all deposits. NS&I is underwritten by HM Treasury, therefore NS&I fraud loss is considered to be a loss to the public sector.

During the financial year 2011-12, NS&I experienced 188 cases of fraud, amounting to a net fraud loss of £404,000.

Online ticket fraud

£1.5 billion

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

Online ticket fraud occurs when victims purchase tickets for an event such as music, sport, theatre or a performance, which do not materialise. These tickets are often purchased from fake ticketing websites and through online auction and shopping sites.

Research carried out by the OFT⁵⁷ in September 2009 identified that 1 in 12 of those surveyed admitted to being caught out by scam websites. The survey also showed that about eight per cent were a victim of online ticketing fraud, having bought music, sport or theatre tickets from a website that appeared to be genuine.

The NFA has calculated an annual fraud loss estimate using the prevalence rate identified in the OFT survey multiplied by an average fraud loss of £637 per victim identified by Action Fraud in relation to online ticketing fraud during 2012.

Based on this data, an estimated 2.3 million people fall victim to this type of fraud each year, resulting in losses of £1.5 billion. This figure is different to that reported in the AFI 2012 due to a greater range of reports coming through to Action Fraud, as well as the impact from events that took place in 2012.

⁵⁷ <http://www.offt.gov.uk>

Case study 8

Olympic and Paralympic Games ticketing fraud loss

Action Fraud received a notification of financial loss relating to Olympic and Paralympic Games ticketing of £31,442. Upon reading the report, it was clear that this was a collective loss as opposed to an individual loss. A company based in Russia had planned a tour excursion in London, which included tickets to the Olympic and Paralympic Games. They purchased tickets from a company based in Oslo called Euro Team Tickets. Once payment was made for the tickets, the Russian company could no longer get in contact with Euro Team Tickets, resulting in their customers experiencing a significant combined loss.

Overall, there was £424,704.85 of Olympic and Paralympic Games ticketing fraud losses reported to Action Fraud. Losses ranged from £30 to £31,442.

[NFA Action Fraud]

Patient charges fraud £156 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	E, W & NI

NHS patient charges fraud can occur when patients falsely seek exemption from NHS charges or falsely claim entitlement to free services, for example, patients falsely claiming to be in receipt of income support in order to avoid paying the NHS prescription charge.

NHS Protect has a high level of organisational knowledge relating to patient charge evasion, having undertaken detailed and extensive loss analysis exercises to qualify the nature and scale of criminal behaviour and activity. An NHS Protect exercise to consider the potential programme loss in these areas was undertaken in 2007/8 with a resulting outline value of £156 million in England and Wales. This remains, however, a single historical estimate based on the particular scheme constructs and controls in place at that time and is not indicative of a current or ongoing loss value.

NHS dental services fraud

£73.2 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	E, W & NI

NHS dental services fraud can occur when false claims for payment are submitted by dental contractors, detailing courses of treatment that have not been provided as described. The types of suspected contractor fraud includes:

- patients not receiving the level of treatment claimed for;
- split courses of treatment;
- patients not visiting the dentist at all, at the time suggested on the claim; and
- claims made for fictitious or 'ghost' patients.

NHS Protect has a high level of organisational knowledge relating to dental services fraud, having undertaken detailed and extensive loss analysis exercises to qualify the nature and scale of criminal behaviour and activity. An NHS Protect exercise to consider the potential programme loss in these areas was undertaken in 2009/10 with a resulting outline value of £73.2 million in England. This remains, however, a single historical estimate based on the particular scheme constructs and controls in place at that time, and is not indicative of a current or ongoing loss value.

Payroll fraud

£335 million (public sector)

Confidence in estimate	Scope of estimate	Coverage
	Identified	E, S & W

Payroll fraud is any fraud against the payroll spend of an organisation. Examples include:

- employees claiming overtime for hours not worked;
- false expense reimbursement (see detailed estimate below) claims;
- unauthorised changes to an organisation's payroll system (such as an employee adding ghost employees to the payroll who either do not exist or do not work for the organisation).

Research shows that worldwide, payroll fraud comprises 9.3 per cent⁵⁸ of occupational fraud with a median loss of £29,863 per payroll fraud case.⁵⁹

⁵⁸ Association of Certified Fraud Examiners Report to the Nations on Occupational Fraud and Abuse, p 12. Available at: <http://www.acfe.com/rtn/>

⁵⁹ \$48,000 converted on 16 January 2013, OANDA Currency Converter.

In the UK there are currently (December 2012) 5.7 million people employed in the public sector⁶⁰. An analysis of COINS data⁶¹ shows that, in 2011-12, public expenditure relating to pay across central and local government was £167 billion. Broken down, spend on pay was £90 billion for central government and £77 billion for local government.

The NFA has applied a loss percentage rate of 0.2 per cent⁶² to spend on pay to produce an indicative estimate of £335 million of payroll fraud across the public sector. This is split £181 million in central government and £154 million in local government.

The *Annual Business Survey* is a survey of financial information from two-thirds of the UK economy and shows the total employment costs for the private sector to total £512 billion for 2011, the latest data available.⁶³ For illustrative purposes, if the NFA applied the same loss estimate of 0.2 per cent, payroll fraud could cost the private sector as much as £1 billion.

Expenses fraud

£100 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

Expenses fraud occurs when an employee exaggerates their work expenses, for example, mileage, travel fares, accommodation and client entertainment, similar to payroll fraud claims for overtime not worked or false expense reimbursement.

Research carried out by GlobalExpense, an employee expense management firm, in November 2010 identified that 28 per cent of people surveyed claim expenses, of which 10 per cent exaggerate their claim.⁶⁴ The survey also showed the amount by which people exaggerate their claims.

Using UK workforce statistics⁶⁵ and calculating an average claim amount of £10 per claimant, the NFA estimates that expense fraud costs £100 million a year. This can be broken down to £80 million loss to the private sector and £19 million to the public sector. This is a change from last year due to the increase in the UK workforce.

⁶⁰ ONS (2012) Labour Market Statistics, December 2012. Table 4(1) states that total public sector employment is 5,745,000 people. Available at: http://www.ons.gov.uk/ons/dcp171778_287888.pdf

⁶¹ Combined Online Information System (COINS) is a database of UK government expenditure provided by government departments. Available at: <http://data.gov.uk/dataset/coins>

⁶² This estimate is derived from an illustrative fraud loss measurement exercise, which is not available in the public domain.

⁶³ ONS (2012) Annual Business Survey, 2011 Provisional Results', Sections A-S UK Business Economy, 15 November 2012. Available at: <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-276587>

⁶⁴ GlobalExpense (2011): Employee expenses benchmark summary report

⁶⁵ ONS (2012) Labour Market Statistics, December 2012. Available at: <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/december-2012/index.html>

Pension fraud

£20.8 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	E & W

Pension fraud can occur when the pension provider is not notified about the death of a person and pension payments continue to be cashed fraudulently. It can also occur when pensioners fail to notify the pension provider that they have a change in circumstances, which would affect the value of their pension, for example returning to work once retired or moving abroad.

The Audit Commission’s National Fraud Initiative (NFI) matches occupational pension data for NHS, central government (excluding the state pension), local government and the private sector against the records of deceased persons held by the DWP.

To date the most recent NFI exercise in 2011 has identified 2,666 cases in the public sector, where pensioners had died but where payments continued to be made. Overpayments prevented and identified totalled £89.4 million. Losses prevented were estimated using the Cabinet Office formula, which multiplies the annual pension by the number of years until the pensioner would have reached 90.

In order to calculate an annual fraud loss figure, the average public sector pension payout of £7,800 has been applied to the 2,666 public sector cases, to produce an annual public sector occupational pension fraud figure of £20.8 million. Based on the number of matches per pension type (that is NHS, teachers, the civil service, the armed forces, local authority, the police, etc.) this figure breaks down as £13.7 million in central government and £7.1 million in local government pension fraud. These figures do not include the state pension and only capture detected fraud. The figure has increased from £16.6 million reported in the AFI 2012 as outcomes have continued to accumulate from NFI 2010/11. The NFI is conducted biennially, with the next iteration due late 2013.

In addition, the NFI looks to identify pension abatement fraud (that is returning to work after retiring and not informing the pension scheme), injury benefit fraud (that is claiming occupational injury benefit and state injury benefit and not informing the pension scheme), and private pension fraud. The most recent NFI exercise in 2011 has identified 149 cases of abatement fraud (£1.2 million in prevented and detected overpayments), 225 injury benefit fraud (£1.7 million in prevented and detected overpayments) and 409 private sector pension fraud cases (£8.8 million in prevented and detected overpayments).

Pre-payment meter scams

£2.7 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

This is a door-to-door fraud where criminals offer discounted energy credits to households who pay for their electricity in advance through a key or card that they put into their meters. The customer ends up paying twice: once to the criminal and then again, to their energy supplier which can detect the fraud and seek repayment for the electricity.

There are over 3,700,000 prepayment customers in the UK.⁶⁶ In 2011 Energy UK (representatives of the UK's gas and electricity industry) identified over 53,000 incidents involving illegal top ups. The average top up was £50 per customer.

Based on this information it is estimated that prepayment meter scams cost individuals £2.7 million in 2011.

This estimate has remained the same as that reported in the AFI 2012 as no further work has been done.

Private rental property fraud

£755 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

Private rental property fraud is a type of advance fee fraud where would-be tenants are deceived into paying an upfront fee to rent a property that turns out not to exist, or that is already rented out, or is rented to multiple victims at the same time.

In October 2010 Shelter (a housing and homelessness charity) carried out an online survey looking at the number of people who have been a victim of a scam involving a private tenancy or landlord scam. The YouGov research estimated that 946,000 people have been the victim of rental scams in the last three years,⁶⁷ equating to around 315,000 victims each year.

The NFA has calculated an annual fraud loss estimate using the prevalence rate identified in the Shelter survey multiplied by an average fraud loss of £2,394 per victim identified via Action Fraud in relation to rental fraud during 2012.

Based on this data, the NFA estimates that rental fraud costs individuals around £755 million a year. The figure is different to that reported in the AFI 2012 due to an increase in the average financial loss reported to Action Fraud.⁶⁸

⁶⁶ Energy UK (2010) Prepayment Meter Fraud Industry Update, November 2010.

⁶⁷ Available at: http://england.shelter.org.uk/news/september_2010/1m_victims_of_landlord_scams

⁶⁸ Increase in loss to Action Fraud refers to an increase in reporting, not necessarily due to an increase in rental fraud

Procurement fraud

£2.3 billion (public sector)

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	UK

Procurement fraud is any fraud relating to the purchase of goods and services. It is a deliberate deception intended to influence any stage of the procure-to-pay lifecycle in order to make a financial gain or cause a loss. It can occur prior to a contract award as well as once one is in place. Examples include: price fixing; bid rigging; cover pricing; false/duplicate/double invoicing; overpayments; false payments; altered payment details and diverted payments (often involving bribes and ‘kickbacks’); and the delivery of inferior or sub-standard substitute products. Procurement fraud is particularly complex, hidden and difficult to detect and measure. It can be perpetrated by those inside or outside an organisation and is rarely reported.

The NFA’s current estimate of procurement fraud replicates the methodology used in the AFI 2012 to estimate the extent of procurement fraud suffered by the public sector. Using an analysis of COINS data, contained in HM Treasury’s 2012 ‘Public Expenditure Statistical Analyses’ (PESA) report, expenditure relating to procurement across both central and local government was £227 billion. A 1 per cent ‘at risk’ figure used by the Ministry of Defence Police to estimate procurement fraud within their defence budget has been applied to this spend figure to provide an estimated procurement fraud loss of £2.3 billion (£1.4 billion for central government, £876 million for local government).

The NFA private sector survey suggests that 21 per cent of victims suffered procurement fraud whilst the charity survey indicates that 10 per cent of victims experienced this fraud type.

Recruitment fraud

£616 million (cost of re-recruiting)

Confidence in estimate	Scope of estimate	Coverage
	Hidden	UK

Recruitment fraud occurs when false information is provided in order to gain employment. Examples include lying about employment history and qualifications or providing false identification documents such as false documentation demonstrating the right to work in the UK.

In 2011 there were over 29 million people in the UK workforce⁶⁹ and an employee churn rate of 12.7 per cent.⁷⁰ The churn rate represents the total number of employee moves completed in a year.

In addition, 393,000 new jobs were created in 2010.⁷¹ Bringing together employee churn and new posts created, the NFA estimate that over 4 million new posts were filled in 2011.

⁶⁹ ONS (2012) Labour Market Statistics.

⁷⁰ CIPD (2012) Resource and Talent Planning

⁷¹ Confederation of British Industry (CBI), Mapping the route to growth, rebalancing employment, brief, June 2011.

NorthgateArinso PeopleChecking have identified that five per cent of job seekers are rejected because they lied on their applications and were caught.⁷² That is 205,000 UK cases of recruitment fraud in one year. The Chartered Institute of Personnel Development (CIPD) calculate the cost of filling a single vacancy to be £3,000.⁷³

Based on this information the NFA estimates the additional cost of re-recruiting because of job seekers lying on their applications to be £616 million a year.

Retail banking fraud

£475 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

The payments industry through Financial Fraud Action UK, collates industry statistics and intelligence; forecasts payment fraud trends; runs an industry threat management process, industry projects, education and awareness campaigns; and develops industry standards and best practices. Financial Fraud Action UK also publishes an annual report, *'Fraud the Facts'*, which is a comprehensive and detailed directory of facts and statistics on the latest developments in payment fraud. All detected retail banking fraud statistics outlined below are sourced from this report.

Cheque fraud

£35 million

Fraud type	Total estimated fraud loss
Forged cheques	£11.4 million
Fraudulently altered cheques	£11.4 million
Counterfeit cheques	£12.3 million

Forged cheques (a genuine cheque that has been misappropriated and used with a forged signature by a fraudster), counterfeit cheques (manufactured cheques which look like genuine cheques), and fraudulently altered cheques (genuine cheques where alterations have been made to the value or payee before being paid in) together comprise possible methods of committing cheque fraud.

According to Financial Fraud Action UK, in 2012 total cheque fraud cost the UK banking industry £35.1 million, an increase of 2 per cent from figures reported for 2011.

⁷² See: <http://www.northgate-is.com/view/news/item/775>

⁷³ CIPD (2012) Resource and Talent Planning

Online banking fraud

£40 million

Financial Fraud Action UK reported that in 2012 online banking fraud losses totalled £40 million; a 12 per cent increase compared with losses in 2011.

Plastic card fraud

£388 million

Fraud type	Total estimated fraud loss
Cardholder not present	£245.8 million
Counterfeit card	£42.1 million
Lost or stolen cards	£55.2 million
Card ID theft: Account takeover	£24.4 million
Card ID theft: Application	£7.7 million
Mail non receipt	£12.8 million

Plastic card fraud encompasses 'cardholder not present fraud' (the theft of genuine card details that are then used to make a purchase over the internet, by phone, or by mail order), 'counterfeit card fraud' (a fake card using compromised details from the magnetic stripe of a genuine card), 'lost and stolen cards', 'card ID theft' and 'mail non-receipt' fraud (where cards are intercepted on their way to the genuine cardholder).

The latest figures published by Financial Fraud Action UK indicate that total fraud losses on UK cards increased to £388 million in 2012, a 14 per cent increase compared with losses in 2011.

Telephone banking fraud

£13 million

Most telephone banking losses involve customers being duped by criminals, using fake emails or cold calling, into disclosing their personal security details such as telephone banking pass codes. These details are then used to commit fraud.

Financial Fraud Action UK recorded telephone banking losses for 2012 at £12.6 million, a decrease of 25 per cent on the previous year.

Student finance fraud

£31 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	E, S & W

Financial support is available from the Government to support eligible students studying on an approved higher education course. The Student Loans Company (SLC) is responsible for administering government-funded loans and grants to students throughout the UK. If the student is studying on a qualifying NHS-funded course, the NHS Business Services Authority (NHS BSA) administers student funding.

Student finance-related fraud can occur when applicants provide false or misleading information when applying for student funding, or deliberately fail to notify the relevant awarding authority of changes in their circumstances. For example, full household income may not be disclosed in order to gain more support, or a student may fail to notify the relevant awarding authority of their withdrawal from a course, which results in student finance continuing incorrectly.

The SLC and NHS Counter-Fraud Service have independently carried out fraud measurement exercises to attempt to determine the potential for student finance-related fraud. Both organisations have developed their fraud measurement methodology to take account of the likelihood of hidden fraud. The SLC has further developed its fraud measurement activity to measure the success of existing fraud prevention measures and inform future fraud prevention activity by identifying areas of risk. Based on the most recent estimates provided by these two organisations, it is estimated that student finance-related fraud costs £31 million a year.

Tax credit fraud

£670 million

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	UK

Child Tax Credit and Working Tax Credits were introduced in April 2003 to provide support to parents returning to work, reduce child poverty and increase financial support for all families. Tax credits are a flexible system of financial support designed to deliver support when a family needs it, tailored to their specific circumstances. In 2011-12, around £30 billion was paid out by HMRC to more than 6 million families in the UK.

HMRC undertake an error and fraud analytical programme, which helps to provide an understanding of the overall level of error within the tax credit system. Based on the findings of this programme HMRC's central estimate of the level of tax credits fraud favouring the claimant in 2010-11 is £670 million,⁷⁴ an increase of 76 per cent from the previous year. Analysis and monitoring of day-to-day activity has not

⁷⁴ HMRC 'Child and Working Tax Credits Error and Fraud Statistics 2010-11'. Available at: www.hmrc.gov.uk/stats/personal-tax-credits/cwtcredits-error1011.pdf

suggested that fraud is on the increase. HMRC is undertaking more analysis to understand the potential trend but, as HMRC has become better at specifying evidence requirements; more activity is now being defined as fraud than previously.

Tax fraud £14 billion

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	UK

HMRC publishes annual statistical releases which estimate the scale of the tax gap for the main direct, and indirect taxes that it administers. The tax gap is the difference between the amount of tax that is due and the amount that is collected. Overall the total tax gap is estimated to be £32 billion in 2010-11.⁷⁵ This equates to around 6.7 per cent of the estimated total tax liability for 2010-11,⁷⁶ a decrease from 7.1 per cent in 2009-10. The overall tax gap has increased slightly between 2009-10 and 2010-11 from £31 billion to £32 billion; this is mainly due to an increase in the VAT rate from 15 per cent to 17.5 per cent in January 2010.

'Measuring Tax Gaps 2012' provides an illustrative breakdown of the 2010-11 tax gap by taxpayer behaviour based on management assumptions and judgement. For calculating an estimate of tax fraud it is assumed that the underlying behaviours described as 'evasion', 'the hidden economy' and 'criminal attacks' represent fraud. It is estimated that these behaviours accounted for £14 billion in 2010-11. It is important not to draw too many conclusions from comparing the latest behaviour breakdown for 2010-11 with that published for 2009-10 and 2007-08 (a breakdown for 2008-09 was not produced). This is because the tax gap breakdown is best used for looking at the relative size of the components and is not necessarily sensitive enough to pick up year on year changes. Also the methodologies and management assumptions change each year to take account of new data resulting in revised estimates of previously published tax gaps. However the behavioural breakdowns have not been revised for previous years.

'Evasion' is illegal activity, where individuals or businesses known to HMRC deliberately omit, conceal or misrepresent information in order to reduce their tax liabilities. Behavioural research has shown that a minority are willing to break the law to avoid paying their fair share of tax. Examples of evasion are an individual falsifying expenditure claims, or a company suppressing its turnover. HMRC estimate losses resulting from evasion to be around £4 billion (14 per cent of the tax gap).

'Hidden economy' fraud refers to sources of undeclared economic activity, and consists of undeclared activities of both 'ghosts' whose entire income is unknown to HMRC, and 'moonlighters', who are known to HMRC in relation to part of their income but also have other source(s) of income that are unknown to HMRC. HMRC estimates losses resulting from the hidden economy to be around £5 billion (16 per cent of the tax gap).

⁷⁵ HMRC (2012) Measuring Tax Gaps 2012. Available at: <http://www.hmrc.gov.uk/stats/mtg-2012.pdf>

⁷⁶ Total tax liability is defined as the tax gap plus the amount of tax actually received.

Criminal attacks on the tax system involve co-ordinated and systematic attacks by organised criminal gangs. This includes smuggling (for example, of alcohol/tobacco), repayment fraud, and VAT missing trader intra-community (MTIC) fraud. HMRC estimate losses as a result of criminal attacks to be in the region of £5 billion (16 per cent of the tax gap).

HMRC first published estimates of the tax gap by taxpayer behaviour in December 2009. Despite improvements in the methodology for measuring which taxpayer behaviours drive the various components of the tax gap, the behavioural breakdown for 2010-11 still involves some management assumptions and judgement. Therefore the figures can only be used to give a broad indication of behaviours.

Telecommunications fraud

£953 million

Confidence in estimate	Scope of estimate	Coverage
	Hidden	UK

Telecommunications fraud involves the theft of services or deliberate abuse of voice and data networks. This includes:

- theft of satellite or cable delivered television services;
- the use of a false identity to acquire telecommunication services and/or equipment;
- international revenue share fraud (the manipulation of international premium rate telecommunication services for financial gain); and
- box breaking (obtaining and selling on subsidised telecommunication equipment such as mobile phones).

The Telecommunications UK Fraud Forum (TUFF) estimates that the telecommunications industry suffered losses of around £953 million in 2011, a decrease of 2 per cent from the previous year. Figures are based on an average loss of 2.4 per cent against total operator reported revenue of £39.7 billion.⁷⁷

⁷⁷ OFCOM (2012) The Communications Market Report 2012, p 281.

Television licence fee evasion

£204 million

Confidence in estimate	Scope of estimate	Coverage
	Identified and hidden	UK

Television Licence fee evasion is the evasion of the licence fee required for watching or recording television programmes as they are shown on Television.

There are more than 25.2 million licences currently in force in the UK, with collected television licence fee revenues of £3.7 billion⁷⁸ during 2011-12. The BBC calculates fraud losses resulting from licence fee evasion by comparing theoretical license fee income with the actual amount collected.

The estimated evasion rate remains at a low of 5.2 per cent, meaning that the vast majority of properties are correctly covered by a television licence.

During 2011-12, the BBC estimates that £203.6 million⁷⁹ was lost because of licence fee evasion.

Transport fare evasion

£210 million

Confidence in estimate	Scope of estimate	Coverage
	Hidden	E, W & S

Fare evasion occurs when a person travels using public transport without buying a valid ticket. This estimate includes fare evasion on the national rail system and covers Great Britain.

Fare dodgers who choose to travel without buying a ticket are estimated to be making 115,000 train journeys each day on the rail network. The Association of Train Operating Companies (ATOC), which represents Great Britain’s train operators, estimates that between three and five per cent of journeys made on the network every day are made without tickets. Applying the conservative lower estimate of 3 per cent, 42 million journeys have been made over the last year by fare evaders. Multiplying the number of journeys by the average price paid for a ticket, £5.00, ATOC estimates that around £210 million is lost to fare evasion each year. This loss is equivalent to the upkeep of around 400 stations for the next five years.

In the absence of any work conducted this year in the costs of transport fare evasion, the losses have remained the same for the AFI 2013, at £210 million.

⁷⁸ See: <http://www.tvlicensing.co.uk/about/our-performance-AB6/>

⁷⁹ See: <http://www.tvlicensing.co.uk/about/our-performance-AB6/>

Vehicle excise duty evasion

£40 million

Confidence in estimate	Scope of estimate	Coverage
	Identified	UK

The Department for Transport (DfT) produces annual estimates relating to vehicle excise duties, calculated by using extrapolations against the outcome of 1.1 million vehicle licence checks carried out throughout the UK.

The estimates of vehicle excise duty evasion are derived by directly observing registration marks from traffic at various sites around the country. These are then compared with records held by the Government licensing agencies.

To obtain these figures, throughout June 2011 over 1 million vehicle registration marks were collected from 236 sites across Great Britain and 20 sites across Northern Ireland. The overall rate of unlicensed vehicles 'in stock' in Great Britain in 2011 was estimated to be 0.7 per cent. This equates to roughly 249,000 vehicles.

It is estimated that vehicle excise duty evasion could have cost around £40 million in lost revenue in the UK in 2011-12.⁸⁰ This estimate has not changed since the AFI 2012, as DfT has advised that this figure is now being updated every other year with the next update due in late 2013.

Conclusion

The National Fraud Authority tentatively places identified and hidden fraud loss in the 2012-13 at **£52 billion**. This aggregate figure is purely illustrative. It consists of £15.5 billion of identified fraud loss and £36.5 billion of estimated hidden fraud loss.

The Annual Fraud Indicator (AFI) is the best estimate available at this time of both identified and hidden fraud losses. It replaces previous estimates of the scale of the problem and should not be compared against previous estimates.

The NFA is committed to continuing to enhance methods for data collection and therefore the confidence that can be placed in the individual estimates. The AFI 2013 meets the commitment in the NFA's business plan to have an even more robust measure of the scale and breakdown of fraud losses⁸¹.

⁸⁰ Department for Transport (2011), Vehicle Excise Duty Evasion 2011

⁸¹ See: <http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/business-plans/nfa-business-plan-2012-13?view=Binary>

Annex 1: Technical note

Primary research methodology

Charity survey design

Sample

The charity fraud survey conducted by the National Fraud Authority included the majority of charities in Great Britain from the registers held by the Charity Commission (CC) and the Office of the Scottish Charity Regulator (OSCR), with an annual income of more than £100,000. The sample was designed to produce a more reliable estimate than those for previous years as it consists of those charities that make up the majority of income (96.5% of the sector's income). The overall financial estimate should, therefore not be skewed by estimates from smaller charities that face different challenges and that may conflate their charity's possible fraud loss estimates with their individual losses. Sole traders were excluded from the private sector survey research (outlined below) for similar reasons. The sample also excluded cross-border charities (from the OSCR sample) to prevent double counting and those yet to submit at least one set of accounts (to ensure that they have had a chance to assess their annual income). Further, unlike last year, no Charity Finance Group members were invited (as their organisation would be captured in the CC/OSCR sample, again to prevent double counting). Therefore, the sample is more representative of charities' income than in previous years. The total number of charities invited to partake in the survey was 26,565.

Table 1. Sample of charities by income bracket

Annual income bracket	CC Sample	OSCR Sample
£0 to 100,000	0	0
£100,001 to £500,000	14,880	2,204
£500,001 to £5,000,000	6,797	828
£5,000,000 plus	1,583	272
Total	23,261	3,304

The survey

The survey was designed by the NFA for the purpose of identifying levels of detected fraud, as well as to gain reliable estimates of possible hidden levels of fraud. The questionnaire also sought to identify what action was taken when a fraud was identified. The key question used to estimate undetected levels of fraud is highlighted below:

Figure 1

Q) IN YOUR OPINION, HOW MUCH FRAUD AGAINST YOUR ORGANISATION DO YOU THINK MIGHT BE UNDETECTED? PLEASE PROVIDE YOUR ESTIMATE AS A PERCENTAGE (%) OF YOUR ORGANISATION'S ANNUAL INCOME.

(For example, if the total annual income of your organisation is £100,000 and you estimate there might be £1,000 of undetected fraud, your answer would be 1%). If you are unsure please try to give your best estimate – PLEASE BE ASSURED YOUR ESTIMATE IS STRICTLY CONFIDENTIAL.

Please type the number in the box using digits, not letters (e.g. '5' not 'Five').

You may use decimal figures (e.g. 5.5). (There is no need to type in the percent symbol (%), just the number).

Respondents who were able to provide an estimate were then asked about their confidence in their estimate. Only estimates from respondents who were 'very sure' or 'sure' that their estimate was reliable were used in any further analysis.

Fieldwork

The survey was rolled out in Survey Monkey⁸² over a two week period in December 2012. December was not the ideal period in which to conduct fieldwork due to the close proximity to the holiday period. Regardless of this, the survey managed to obtain 1,599 completed survey responses after data cleaning (that is removing non-completes, non-qualifying respondents). The survey was completed by more senior personnel than in previous years (for example, almost triple the number of CEOs). These people are thought more likely to have knowledge of fraud and finance issues across their organisation (for example, 55% responsible for fraud and 80% responsible for finance compared to 32% and 65% respectively last year). This has enabled us to increase our confidence in their estimates, with the survey having a confidence interval of +/-2.5 per cent on a 50 per cent finding. Although with a 6 per cent response rate on the survey, it is acknowledged that there may be issues of representativeness and the ability to generalise.

Identity fraud survey design

Sample

The NFA commissioned Vision Critical, an independent research agency to conduct an online survey among 4,213 randomly selected adults in the UK to explore levels of identity fraud. The sample margin of error, which measures sampling variability is +/- 2.2 per cent. The results have been statistically weighted according to the most current education, age, gender and regional data to ensure that samples are representative of the entire adult population of the United Kingdom. Discrepancies in or between totals are due to rounding.

The survey

The questions of interest to the Annual Fraud Indicator (AFI) were inserted into the regular Vision Critical omnibus survey of individuals. This consisted of two key questions. One relating to whether individuals have experienced fraud and the other enquired after actual levels of loss, not monies that may have been recovered, for example, from the bank. The online survey platform provides the respondent panel with highly visual, interactive, and engaging surveys with the aim of ensuring that panel members provide more considered and reliable responses.

Fieldwork

Vision Critical conducted the poll between 14th December and 17th December 2012. Their polls are conducted using a UK online panel that is recruited via an in-depth screening procedure. The panel promises to be made up of a highly engaged community with excellent response rates. The members are recruited through "state-of-the-art sampling techniques", combined with deep profiling on demographic, behavioral and attitudinal characteristics. This is to ensure that the panel is representative.

⁸² See: <http://www.surveymonkey.com>

Private Sector Survey

Sample

The NFA commissioned the research agency GfK NOP to undertake the private sector survey research on its behalf. To obtain value for money in a timely manner, it was proposed that a sample size of 500 private sector businesses be surveyed to provide an indicative confidence interval of +/-4.4 per cent on a 50 per cent finding if treating the survey as a random probability design. Large (250+ employees) and medium (50-249) businesses represent nearly two-thirds (66%) of the total turnover of the sector. However they represent less than 1 per cent of the UK's 4.8million businesses. Small businesses (1-49 employees) make up 28 per cent of turnover⁸³ whilst 'sole trader' businesses, despite representing the majority of the number of businesses, make up just 7 per cent of turnover. In view of this, the NFA sampling strategy was to set quotas for size of business across industry categories to ensure broad coverage of the entire sector, excluding the 'financial and insurance activities' sector (due to the non-comparability of their percentage fraud loss estimates).

Sole traders were also excluded from the sample on the basis that they might conflate individual losses with that of their business. This is similar to the sampling strategy for the charity sector as outlined above. The sample proposed was therefore distributed to be representative of turnover by business size as per the table below.

The contact information for the sample was obtained from a third party supplier who has extensive lists of businesses. Though it is not possible to estimate what proportion of businesses in the UK are registered with this supplier it is reasonable to assume that these lists will include most of the medium to large businesses and a good proportion of small businesses. Further to the above, medium-sized businesses were over sampled to enable meaningful analysis to be made across enterprise size.

Survey

The NFA had developed a questionnaire for last year's AFI 2012 research. This was refined for this year's survey and included a further set of questions on fraud resilience indicators. A pilot was conducted initially to ensure the method was sound and to test the questionnaire. The survey involved an initial interview to ascertain the person in the business that had the most knowledge of fraud and the company's resistance to fraud. For small businesses, this was the owner or managing director; in the large companies, financial controllers and senior managers were often the most appropriate people to talk to. Interviewers then worked to engage the appropriate person and secure their agreement to an interview of 15 minutes at a time suitable to them. If the respondent agreed, an email address was recorded and a short questionnaire emailed to them with questions they were unlikely to be able to answer without having to look up information. They were also requested in the email to have the answered sheet with them at the time of the main interview.

For the main survey 10,000 leads were purchased from a third party supplier, which excluded public sector organisations. The sample was head office based. Some public sector leads did get through the organisation's own sweep so after they and duplicate leads were removed, 9,906 leads were available for use. During the course of the recruitment exercise 7,368 of those leads were used. From the 7,368 leads 923 recruitment interviews were achieved.

⁸³ See: <https://www.gov.uk/government/publications/bis-business-population-estimates>

Table 2. Private sector survey sample breakdown

Total sample used	7,368
Surveys achieved	923
Dialled sample still active (soft appointments, no answer)	3,136
Refusals	2,705
No one suitable available	75
Incorrect phone numbers	529

Interviewers were effective at finding people best placed to answer questions on fraud. The script for the recruitment gave the interviewer free reign to use their initiative to find the right person and the following businesses were recruited by size based on quota targets.

Table 3. Quota targets and businesses recruited by size and sector

		Small	Medium	Large	Total	Target
A	Agriculture, Forestry and Fishing	3	0	0	3	7
B,D,E	Mining and Quarrying; Electricity, Gas and Air Conditioning Supply; Water Supply; Sewerage, Waste Management and Remediation Activities	3	7	11	21	45
C	Manufacturing	20	40	95	155	156
F	Construction	21	16	21	58	68
G	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	125	74	160	359	339
H	Transportation and Storage	10	9	30	49	45
I	Accommodation and Food Service Activities	3	10	11	24	25
J	Information and Communication	6	17	31	54	57
L	Real Estate Activities	6	2	4	12	11
M	Professional, Scientific and Technical Activities	25	19	38	82	68
N	Administrative and Support Service Activities	13	20	25	58	49
P	Education	2	0	0	2	3
Q	Human Health and Social Work Activities	6	6	1	13	18
R	Arts, Entertainment and Recreation	1	3	21	25	23
S	Other Service Activities	7	1	0	8	9
Total		251	224	448	923	923
Target		286	207	448		

Fieldwork

Interviews were carried out between 7th January and 25th January, at which point 383 interviews had been completed. They continued between 4th February and 19th February to make the sample up to 500. The sample broke down as follows.

Table 4. Breakdown of responses of businesses contacted

Total sample provided	923
Surveys achieved	500
No answer	30
Refusals	307
Not available during fieldwork	86

This represents a response rate of 54 per cent. A good number of participation refusals came as a result of receiving the email which articulated in more detail what the survey would require and more crucially the data sheet gave a taste of what the survey would cover. Some refusers stated that they had no fraud. In these cases it was pointed out that they were an important part of the measurement of how prevalent fraud is so their input was critical.

The key question used to estimate undetected levels of fraud is the same as Figure 1 above for the charity sector survey.

The following businesses were interviewed by size. Weighting was then applied to the data to bring them in line with the Department for Business Innovation and Skills (BIS) estimates by turnover.

Table 5. Private sector business interviewed by size and sector

		Small	Medium	Large	Total	Target
A	Agriculture, Forestry and Fishing	1	0	0	1	3
B,D,E	Mining and Quarrying; Electricity, Gas and Air Conditioning Supply; Water Supply; Sewerage, Waste Management and Remediation Activities	1	5	6	12	35
C	Manufacturing	17	21	50	88	83
F	Construction	12	13	12	37	36
G	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	79	50	69	198	182
H	Transportation and Storage	5	3	15	23	25
I	Accommodation and Food Service Activities	1	5	7	13	14
J	Information and Communication	2	7	14	23	28
L	Real Estate Activities	5	1	2	8	7
M	Professional, Scientific and Technical Activities	15	12	22	49	35
N	Administrative and Support Service Activities	1	11	16	28	25
P	Education	1	0	0	1	1
Q	Human Health and Social Work Activities	3	2	0	5	9
R	Arts, Entertainment and Recreation	1	1	8	10	12
S	Other Service Activities	3	1	0	4	5
Total		147	132	221	500	500
Target		152	111	237		

The sample size achieved represents a confidence interval of +/-4.4 per cent on a 50 per cent finding if a random probability design is assumed. Of the 500 sample, 136 businesses had experienced fraud. Broken down by size, the responses of small businesses represented 30 per cent of turnover, medium businesses 15 per cent and large businesses 55 per cent. The final data were weighted to make them representative of size of businesses. The percentage fraud loss estimate for detected fraud included two outliers that were specific to the small business detected fraud loss. In this case there were two small businesses that identified significant fraud losses. The transcripts from the interviews were reviewed and the fraud losses were considered valid. The two cases were therefore not removed from the detected fraud loss calculation for small businesses to ensure that the estimate did not exclude such significant losses, although it is not clear to what extent these losses are representative of small businesses. If the outliers had been removed, the detected fraud loss figure for small businesses would have been £1.2 billion which equates to 0.14 per cent of turnover in the sector. The two cases identified above did not have any effect on the medium and large business detected fraud losses or any of the undetected fraud loss estimates.

Private sector qualitative research

The qualitative sample was heavily informed by the findings of the quantitative study. A number of characteristics were used to ensure the qualitative interviews incorporated a wide variety of views and experiences. The in depth interviewees were selected on the following basis:

- **Sector:** Ensuring a spread of organisations from different sectors as they are likely to experience fraud in different ways and the NFA wanted to explore each of these
- **Size of business / turnover:** The NFA ensured that a spread of different sized businesses were included across the sample.
- **Experiences of fraud:** The NFA ensured that it included businesses with different experiences of fraud in the sample. These can be divided into two different sampling considerations:
 - experience of fraud vs. no experience of fraud;
 - experience of different types of fraud, for example, procurement fraud, ID fraud and cyber enabled fraud etc.
- **Estimates of undetected fraud:** The NFA ensured it was able to explore the reasons for businesses stating that they felt they have no levels of undetected fraud.

The qualitative interviews functioned to help the NFA to understand better the findings from the quantitative survey. They were also part of the validation exercise for the estimates identified for detected and undetected levels of fraud.

The sample was selected from those who had agreed to be contacted again by the researchers after the telephone survey. A sample size of 45 was agreed to ensure the NFA could explore the broad range of themes that it was interested in and this figure is within the principle of diminishing returns of qualitative research. The interviews consisted of a range of face to face and telephone interviewing and were spread geographically across the UK.

Annex 2: Breakdown of losses by victim

Fraud loss by victim sector	Victim	Total estimated fraud loss	Fraud type	Fraud loss	Identified loss	Hidden loss	
Public Sector	Tax system	£14.0 billion	Tax fraud	£14.0 billion	£14 billion		
			Vehicle excise fraud	£40 million	£40 million	Unknown	
	Central government	£2.6 billion	Procurement fraud	£1.4 billion	£1.4 billion		
			Grant fraud	£504 million	£504 million		
			Television licence fee evasion	£204 million	£204 million		
			Payroll fraud	£181 million	£181 million	Unknown	
			NHS patient charges fraud	£156 million	£156 million	Unknown	
			NHS dental charge fraud	£73 million	£73 million	Unknown	
			Student finance fraud	£31 million	£31 million	Unknown	
			Pension fraud	£14 million	£14 million	Unknown	
	Local government	£2.1 billion	National Savings and Investments fraud	£0.40 million	£0.40 million	Unknown	
			Housing tenancy fraud	£845 million	£845 million		
			Procurement fraud	£876 million	£876 million		
			Payroll fraud	£154 million	£154 million	Unknown	
			Council tax fraud	£133 million	£133 million		
			Blue Badge Scheme misuse	£46 million	£46 million	Unknown	
			Grant fraud	£35 million	£35 million		
	Benefit and tax credits systems	£1.9 billion	Pension fraud	£7.1 million	£7.1 million	Unknown	
			Benefit fraud	£1.2 billion	£1.2 billion		
			Tax Credits fraud	£670 million	£670 million		
			£20.6 billion				

*Black, red, amber, green (BRAG) Assessment: Confidence in Indicator

BRAG	Level of confidence
Black	Poor
Red	Average
Amber	Good
Green	Excellent

Note:

Perceived level of confidence is based upon management assumptions and judgement to provide an illustrative indication of the quality of data available to produce an estimate.

NB: It is not always possible to demarcate clearly the fraud by type estimates to identified or hidden losses as some estimates spread across both. Further, it should be noted that fraud cited as being 'unknown' does not mean that no fraud exists, but rather that no fraud has been identified, measured or is estimable. Not all fraud types are included in the breakdown due to the possibility of double counting. Due to rounding some figures may not add up exactly.

	Fraud loss by victim sector	Victim	Total estimated fraud loss	Fraud type	Fraud loss	Identified loss	Hidden loss
Private Sector	£21.2 billion	Small, medium and large enterprises in the UK	£15.9 billion	Small enterprises	£7.7 billion	£4.6 billion	£3.1 billion
				Medium enterprises	£1.5 billion	£44 million	£1.4 billion
				Large enterprises	£6.7 billion	£555 million	£6.1 billion
		Financial and insurance activities	£5.4 billion	Insurance fraud	£2.1 billion	£39 million	£2.1 billion
				Mortgage fraud	£1 billion	£1 billion	
				Plastic card fraud	£388 million	£388 million	Unknown
				Online banking fraud	£40 million	£40 million	Unknown
				Cheque fraud	£35 million	£35 million	Unknown
				Telephone banking fraud	£13 million	£13 million	Unknown
				Estimated other	£1.8 billion	Unknown	£1.8 billion
Charities	£147 million	Registered charities in Great Britain	£147 million	Income £0 – £100,000	£5.2 million	£1 million	£4 million
				Income £100,001 – £500,000	£16.3 million	£11 million	£5 million
				Income £500,001 – £5 million	£23.0 million	£14 million	£9 million
				Income over £5 million	£102.8 million	£4 million	£99 million
Individuals	£9.1 billion	UK adult population	£9.1 billion	Mass marketing fraud	£3.5 billion	£3.5 billion	Unknown
				Identity fraud	£3.3 billion	£3.3 billion	Unknown
				Online ticket fraud	£1.5 billion	£1.5 billion	Unknown
				Private rental Property fraud	£755 million	£755 million	Unknown
				Pre-payment meter scams	£2.7 million	£2.7 million	Unknown
Other	£919 million	Other/mixed	£919 million	Housing tenancy fraud (housing associations)	£919 million	£919 million	

