

The true scale of fraud

Can a problem ever be effectively tackled if we don't know the true extent of it? Almost 277,000 frauds were recorded by over 245 organisations to the Cifas National Fraud Database in 2014, covering six different types of fraud. This data acts as an effective barometer for fraud in the UK but it is clearly not the whole story. Establishing the true scale of fraud is far from simple.



Why is a simple picture not possible?

1 The Department for Business, Innovation and Skills reported that there were 5.2 million private sector businesses in the UK at the start of 2014. In addition, there are over 180,000 charities (in England and Wales), around 560 central government bodies, over 400 local authorities and over 150 NHS Trusts – all of which will be suffering fraud in some way. Individuals also suffer fraud. This makes collating reports of fraud across all 5.4 million organisations and identifying how many of the 60 million plus people in the UK have suffered fraud a challenging task which will, by necessity, require some level of estimation.

2 Another issue concerns terminology and definitions: what are we actually calling fraud? No single, universally agreed, set of parameters exists, and there is no standardisation of what is being counted. For example, some organisations choose to count and report on the number of fraud cases identified. But others focus on the number of prevented frauds. Others only record those cases where a loss was suffered. Cifas records both attempted and successful frauds, both of which are offences, but other organisations do it in different ways and over different time periods.

3 You can't count what you don't know. And, with fraud, what you don't know, will hurt you. Fraud is like an iceberg. Fraud that is undetected (for example, the false insurance claim that is paid out in full by the insurer, or the tax refund that was never due) is a more insidious threat than fraud that is uncovered and reported.

Past attempts to establish the scale of fraud

There have been attempts to quantify fraud in the UK previously, most notably the Annual Fraud Indicator (AFI) produced by the now disbanded National Fraud Authority (NFA). The AFI's methodology evolved year-on-year, and was described by the NFA as not being entirely comprehensive, it was (nonetheless) acknowledged as the most accurate estimate available. Since the closure of the NFA in March 2014, however, there have been no further iterations of the AFI. The last one in June 2013 put the figure of the known cost of fraud to the UK at £15.5 billion and unknown fraud losses at £36.5 billion – a total of £52 billion. So, given that the last national assessment of the issue was published two years ago, what data is publicly available to assess the current scale of fraud in the UK?

Fraud by numbers

In spite of the challenges listed, there are publicly available figures (from various sectors and bodies) that give some indication of the extent of fraud in the UK. These are summarised in Table 1 below.

It is important to bear in mind that this is not, as the AFI worked towards, an assessment of the total cost of fraud to the UK economy but more an attempt to illustrate the extent to which fraud is being perpetrated. Many of these frauds will have been prevented – but this just means that there was no financial loss, not that a crime did not occur. Of these cases, only those from Action Fraud are currently counted as 'police recorded crime' and included in the Crime Statistics of England and Wales.

Table 1 lists known fraud cases, recorded by volume. Many organisations do not report on the number of cases that they have identified. So, on top of almost 1.8 million known cases in Table 1, there are additionally those whose costs are outlined in Table 2 below. Within some of these values it is possible to estimate the number of cases that are involved. If we presume an average loss of £2,000 per fraud against a UK issued card, then the £450 million recorded loss would equate to another 225,000 cases. The Department of Health, on the other hand, has estimated that there are 30 million cases of prescription fraud – a figure that clearly dwarves the number of cases of known fraud which we have identified in Table 1.

Including these figures would increase the annual number of cases of fraud to 32 million - the equivalent of a fraud taking place every second.

Sector/Area	Cases
Cifas member organisations ⁽¹⁾	276,993
Retail ⁽²⁾	523,498
Insurance (false claims) ⁽³⁾	118,500
Individuals (Action Fraud data) ⁽⁴⁾	212,699
Other financial services reporting mechanisms ⁽⁵⁾	123,506
Local Government ⁽⁶⁾	104,000
Central Government ⁽⁷⁾	420,000
Total known cases	1,779,196

Table 1: Identified cases

* Table citations listed overleaf

Area	Value
UK issued credit cards ⁽¹⁾	£450,000,000
Benefits fraud ⁽²⁾	£1,200,000,000
HMRC tax gap due to fraud ⁽³⁾	£15,400,000,000
Charities ⁽⁴⁾	£147,000,000
NHS Prescription Fraud ⁽⁵⁾	£237,000,000
Total cost	£17,434,000,000

Table 2: Fraud by loss

Unreported frauds

Although all frauds reported to Cifas are sent to the police, many frauds are not reported. Moreover, there are a number of areas of the private sector that are not adequately covered by these figures – most notably small-to-medium sized businesses (SMEs). According to the Federation of Small Businesses, this sector accounts for over 99% of all private sector businesses in the UK and almost 50% of private sector employment.

The figures quoted do not include cases of fraud committed inside an organisation by its employees or contractors. The Cifas Internal Fraud Database has been used to record the details of 751 confirmed cases of internal fraud in 2014, but these are just the cases identified by the 134 participating organisations. This equates to an average of 5.6 cases of internal fraud per participating organisation. As mentioned previously, there are 5.4 million organisations in UK which could be suffering cases of internal fraud. While many of these organisations will not have 5.6 employees, let alone 5.6 cases of internal fraud annually, the 751 recorded cases are clearly just the tip of the iceberg. Frequent coverage in the media of the prosecution and conviction of individuals who have been engaged in fraud, bribery or corruption supports this point.

The true scale of fraud in and against the public sector also remains an unknown quantity. Some areas of the public sector are robust in the collection and publication of this data, and must be applauded for their efforts in this area, while in others there are clearly gaps – at the least in the publication of findings.

Summary

Put simply, fraud occurs in large volumes and costs a lot of money. But it is extremely hard to say just how large the volume is or how much it costs.

This estimates in this document have been collated using purely open source material and cases recorded by Cifas member organisations. The data sources are not all directly comparable and the exact definitions will vary. It is likely to include some double counting, although this is estimated to be minimal.

It must stand that a much more accurate picture can be derived by an independent body tasked by government to work alongside industry and the public and third sectors. Agreed terminology and common reporting practices would also serve to create a much clearer and consistent picture of fraud.

The question must be asked: how can we fight fraud effectively when the scale and impact is not known? Additionally, how can we assess the impact of initiatives if we do not know the true picture before and after?

Cifas' recent Fraud Manifesto laid out three clear and simple measures which we believe would help to cut fraud in the UK. The first proposal – and the foundation stone for all future activity – is to recreate an accurate national figure of fraud loss. The simple rationale is that without understanding the scale of the problem, we cannot even begin to tackle it.

Our recommendation is that recreating and ensuring the reliability of this measure should be a priority for the next government. Improved prevention, detection and prosecution will follow.

About Cifas

Cifas aims to make the UK a safer place to do business, by enabling organisations in every sector to prevent fraud and protect the public through the sharing of confirmed fraud data. Cifas has over 300 Members spanning the public and private sectors.

Cifas offers Protective Registration for individuals whose identities are at risk of being used fraudulently, for instance after a burglary. Cifas also operates a scheme called Protecting the Vulnerable. This service is offered free of charge to local authorities to protect those under the care of Court Deputies who are unable to access financial products and whose identities may be at risk. Find out more about Protective Registration at www.cifas.org.uk/pr. To find out more about Protecting the Vulnerable, email ptv@cifas.org.uk.

To talk to Cifas about what we do or about the information in this publication, please visit our website at www.cifas.org.uk

Table 1: Identified cases citations

1. These organisations cover most banks and financial services firms, asset finance and mobile telecoms companies. They also cover some insurers, retailers and credit granting areas of the public sector. A full list of member organisations can be found on the Cifas website.
2. http://www.brc.org.uk/brc_show_document.asp?id=4486&moid=8312
3. <https://www.abi.org.uk/~media/Files/Documents/Publications/Public/2014/Key%20Facts/ABI%20Key%20Facts%202014.pdf>
4. http://www.ons.gov.uk/ons/dcp171778_392380.pdf
5. http://www.ons.gov.uk/ons/dcp171778_392380.pdf
6. <http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf>
7. This figure covers child and working tax credits. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/316032/Random-Enquiry_2012-13_final.pdf

Table 2: Fraud by loss citations

1. <http://www.financialfraudaction.org.uk/Fraud-the-Facts-2014.asp>
2. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/371459/Statistical_Release.pdf
3. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/364009/4382_Measuring_Tax_Gaps_2014_IW_v4B_accessible_20141014.pdf
4. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206552/nfa-annual-fraud-indicator-2013.pdf
5. <http://m.bbc.co.uk/news/health-30622544>