FRAUDSCAPE

www.cifas.org.uk | August 2013

Bulletin

CIFAS

The UK's Fraud Prevention Service

In this Report . . .

CIFAS is a not-for-profit organisation, concerned solely with the prevention of fraud and funded by subscription. Since February 1991 CIFAS has been an independent Company Limited by Guarantee. CIFAS Members are drawn primarily from the UK financial services industry, but also from telecommunications, insurance, other business sectors and the public sector.

Website: www.cifas.org.uk www.identityfraud.org.uk

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CIFAS

Overview

In the first six months of 2013, there were 113,980 frauds recorded by organisations that share confirmed fraud data through CIFAS. This was a decrease of 3% compared with the levels recorded during the last six months of 2012. This has been driven predominantly by decreases in Facility Takeover Fraud and Misuse of Facility Fraud. *Table 1* shows the changes in the number of different fraud types recorded during the 12 month period.

Frauds recorded by Fraud Type from July 2012 to June 2013
Table 1

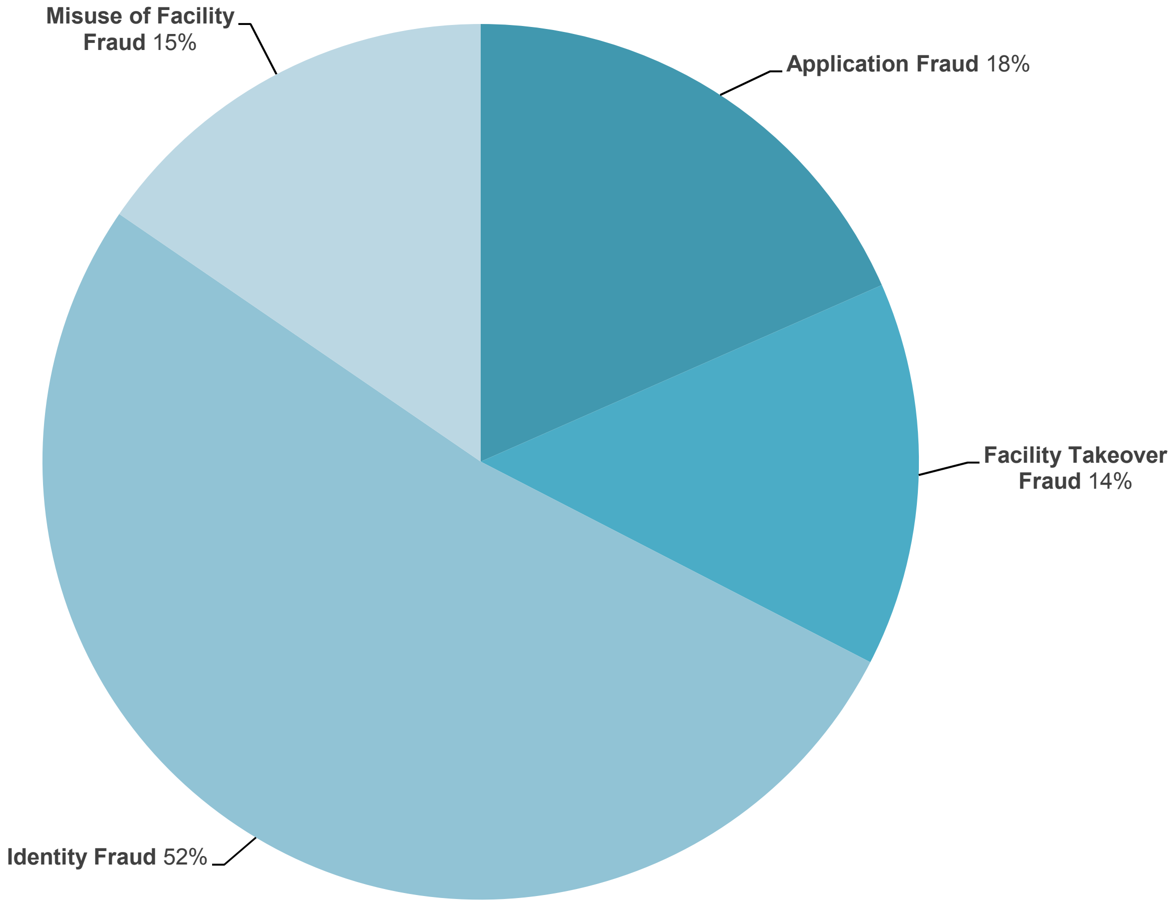
Fraud Type	Last 6 months of 2012	First 6 months of 2013	% change
Asset Conversion Fraud	169	151	-11%
Application Fraud	19,384	20,910	+8%
False Insurance Claim	146	152	+4%
Facility Takeover Fraud	19,427	16,120	-17%
Identity Fraud	58,470	59,104	+1%
Misuse of Facility Fraud	20,023	17,543	-12%
Total	**117,619**	**113,980**	**-3%**

Total frauds filed to CIFAS by quarter in 2011-2013
Figure 1

Fraud by Fraud Type

The chart below shows the proportions of frauds recorded in the first half of 2013. Asset Conversion Fraud and False Insurance Claims each accounted for less than 1% and are not presented in *Figure 2* below. Total percentages may not add up to 100% due to rounding. ●

Proportion of fraud types recorded to CIFAS in the first six months of 2013
Figure 2



Identity Fraud includes cases of false identity (the use of an entirely fictitious identity) or the stolen identity of an innocent victim.

Facility Takeover Fraud, also known as Account Takeover Fraud, occurs where a person (the facility hijacker) unlawfully obtains access to the details of the 'Victim of Takeover', namely an existing account holder or policy holder, and fraudulently operates the account or policy for his or her own (or someone else's) benefit.

Misuse of Facility Fraud occurs when an account, policy or some other facility is used fraudulently, e.g paying in an altered cheque or knowingly making a payment that is going to bounce/be declined.

Application Fraud relates to applications with material falsehoods (lies) or false supporting documentation (where the name provided has not been identified as false).

Identity Related Crime

Identity related crime occurs where a fraudster has either created a fictitious identity or obtained/hijacked the details of another identifiable individual for the purpose of obtaining goods or services in the victim's name.

Of the frauds recorded in the first half of 2013, 66% were identity related crimes (namely Identity Fraud and Facility Takeover Fraud).

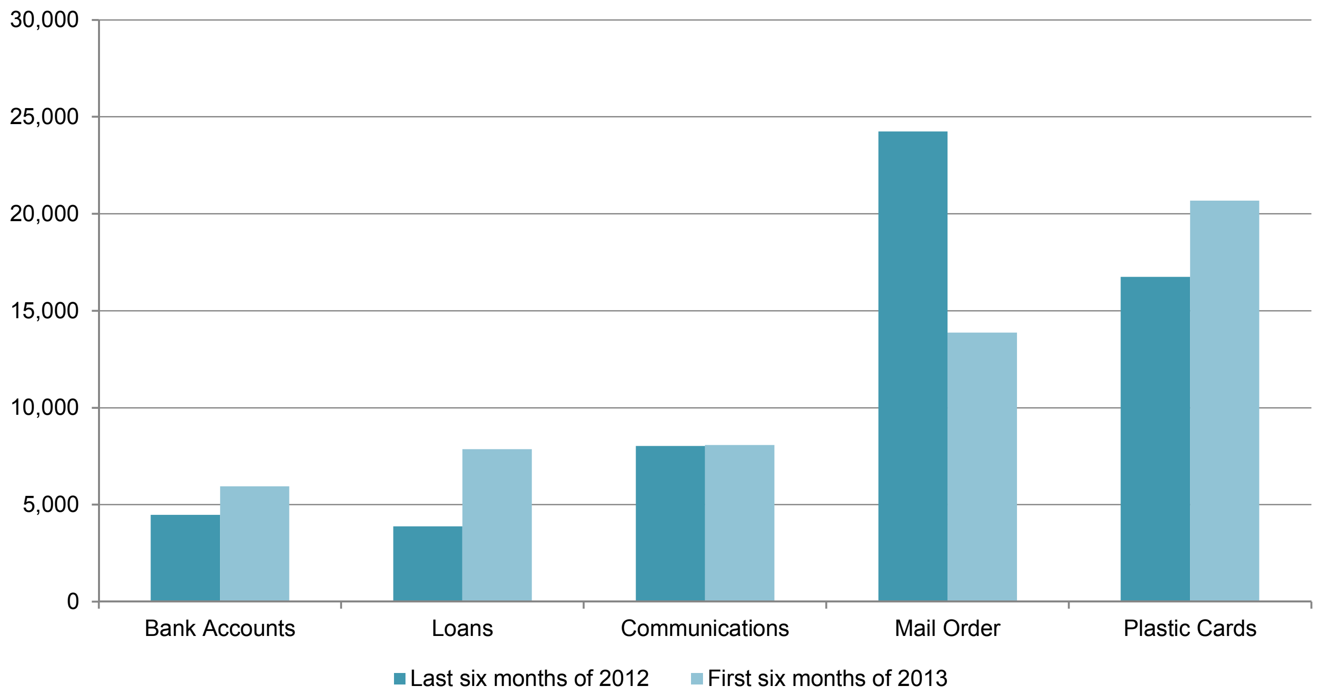
Identity Fraud (52% of all fraud)

Despite the overall decrease in the number of frauds recorded during this period, the comparatively small increase of 1% in Identity Fraud still emphasises the fact that the fraudulent abuse of personal details continues to rise. The fact that it accounts for over half of all confirmed frauds recorded in the first half of 2013 underlines the severity of the issue, as more and more fraudsters find ways to fabricate or misuse identities for their own personal gain.

Current address frauds (where an innocent party is impersonated at his or her current address) accounted for the greatest proportion of Identity Frauds (73%) recorded in the first half of 2013. During that period, the vast majority (82%) of Identity Frauds were carried out online, which means that identifying the real fraudster becomes even more difficult, as organisations will not necessarily have the details of the fraudster to enable them to be tracked down.

Driving the overall increase in Identity Fraud, in the first half of 2013 compared with the last half of 2012, were rises in fraud against certain products, namely: plastic cards (+23%), loans (+103%) and bank accounts (+33%). *Figure 3* shows the products with the highest level of Identity Frauds in the first six months of 2013, compared with the previous six months. These are all financial products which offer attractive ways for fraudsters to obtain funds; whether that is through a payday loan, an overdraft facility or a credit card. While fraudsters' methods can change, the products that they target continue to reflect the desire for instant cash.

Number of Identity Frauds (broken down by product) recorded in the last half of 2012 compared with the first half of 2013
Figure 3



Facility Takeover Fraud (14% of all fraud)

While Identity Fraud increased, the opposite was true for Facility Takeover Fraud which decreased by 17%. The 59% decrease in the takeover of mail order accounts contributed greatly to this. There were other products, however, which experienced a rise in the number of Facility Takeover Frauds, namely plastic cards and bank accounts (products that were similarly targeted for Identity Fraud).

In the first half of 2013, the proportion of Facility Takeover Frauds recorded where there was an unauthorised electronic payment instruction (e.g. an order to set up a direct debit, or a withdrawal made online) increased from 24% in the last half of 2012 to 33%. That rise was offset by decreases in those recorded as a result of unauthorised delivery instructions or unauthorised despatch of goods instructions, largely in relation to mail order. Heightened security measures such as enhanced security questions, the use of technology for voice recognition and ‘device ID’ (the identification of the device on which an order was placed) may well have ‘weeded out’ fraudsters before they managed to get as far as hijacking a victim’s account. Decreases in this type of fraud (along with the decrease in Identity Fraud also seen in mail order accounts - see *Figure 3*) may indicate that companies have become better at preventing this type of fraud and invariably indicates that the fraudsters will turn their attention to a new target (normally, organisations who do not have the same security systems in place). ●

First Party Fraud

First party fraud is where an individual uses his or her own details to commit a fraud. There is no suggestion, therefore, that any sort of identity related crime has taken place.

Application Fraud (18% of all fraud)

In the first six months of 2013, Application Frauds (applications for credit, insurance, or goods which included serious material falsehoods – lies – e.g. false income or credit history) increased by 8%. Driving this increase was the inflated number of fraudulent applications for insurance (+30%) and asset finance (+31%), which were clearly different types of product from those targeted by identity fraudsters.

Economic conditions since the credit crunch largely explained previous years' decreased levels of Application Fraud. As lending criteria became more stringent, many fraudulent applications would never get as far as the fraud team due simply to being rejected outright on the grounds of creditworthiness. With the economic situation still precarious, but with early signs of an upturn, individuals were attempting to obtain what they perceived to be necessary assets and insurance services and were trying to do so by making fraudulent declarations or hiding adverse information. The most common reasons for recording Application Frauds remained unchanged between the two six month periods; fraudsters continued to conceal addresses with adverse credit history and were doing so by declaring false time periods for residence at other addresses.

Misuse of Facility Fraud (15% of all fraud)

Misuse of Facility Fraud decreased 12% in the first half of 2013 compared with the last half of 2012. Bank accounts accounted for the most Misuse of Facility Frauds (over 75%).

Between the two half year periods, however, the proportion of frauds that involved false instruments being paid into bank accounts decreased from 49% to 42%. Some of these frauds were as a result of 'money muling' activity, so a fall in the overall figures suggests a lower rate of complicit money mules during the first six months of 2013 compared with the last six months of 2012.

While bank accounts constituted the majority of Misuse of Facility Frauds, this does not tell the whole story. There were also increases in the misuse of plastic card and mail order accounts in the first half of 2013. Furthermore, there were increases in the proportion of Misuse of Facility Frauds recorded for the 'evasion of payment' (up from 9% in the last six months of 2012, to 14% in the first six months of this year).

The reason behind these frauds is clear. Fraudsters are obtaining goods (mail order products) and cash (plastic card credit) and are fraudulently trying to evade payment on what they owe. This emphasises the difference between fraud (where an individual has made no attempt to pay for goods) and accounts where customers find themselves in the position of being unable to manage the debts in their name. ●

Products

This section outlines the fraud trends recorded, broken down by the product types.

Bank Accounts

In the first six months of 2013, fraud against bank accounts decreased by 11% compared with the last half of 2012. This was driven mainly by the fall in the number of Misuse of Facility Frauds. Despite this, there were increases in the number of Identity Frauds on bank accounts (up 33%) with fewer false identities being used and more impersonations of genuine individuals.

Previously, there had been a slow decline in the number of savings accounts being used for fraudulent purposes. The first half of 2013, however, saw an 8% increase (although the numbers remained low compared with the volumes recorded under current accounts). It has been noted that one method that fraudsters have attempted to use in order to launder funds involved multiple savings accounts (opened using either a genuine identity, a completely fictitious identity or by impersonating a genuine victim).

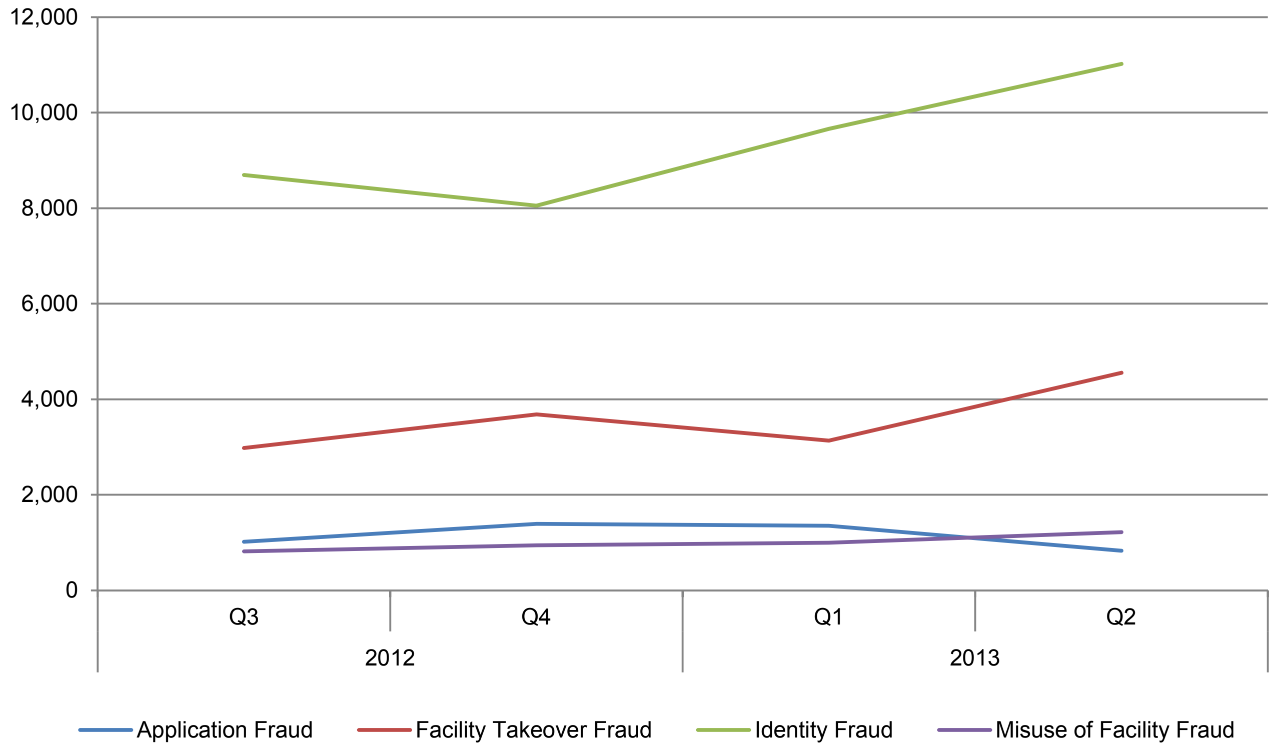
The perception that savings accounts are not always subject to the same level of checks as current accounts is a likely explanation of why this type of account has been targeted.

Plastic Cards

The number of frauds against plastic card accounts (e.g. credit or store cards) increased by 19% in the first half of 2013 compared with the last half of 2012. Increases were recorded across all fraud types (with the exception of Application Fraud) and *Figure 4* illustrates this.

Personal credit cards accounted for 93% of all plastic card frauds recorded during the first six months of 2013, followed by personal store cards at 5%. Just under two thirds of all plastic card frauds were Identity Frauds, showing that fraudsters were increasingly impersonating genuine individuals in order to be granted a credit facility. In most cases the fraudster was not

Number of plastic card frauds recorded by quarter, broken down by fraud type
Figure 4



successful, with 63% of the attempted Identity Frauds having been prevented.

A slight but interesting change was in the proportion of these frauds that were carried out online. In the second half of 2012, 81% of all plastic card frauds were attempted online. This dropped to 77% in the first half of 2013, with a corresponding increase in the proportion carried out by telephone. What this suggests is the fact that online verification is becoming harder for fraudsters to circumvent, and so they are attempting to use the telephone as a means to try to 'talk their way around' any security issues that they encounter.

Mail Order

In the first six months of 2013, the number of mail order frauds fell substantially compared with the preceding six months (a decrease of 44%). The two fraud types which accounted for the majority of mail order frauds were the major factor in the overall drop, with Identity Fraud decreasing by 43% and Facility Takeover Fraud by 59%. Where mail order products had previously been the most commonly targeted product, the numbers fell to a lower level than that of plastic cards during the first half of 2013.

Despite this, one fraud type (within mail order) actually increased in the first six months of 2013. Despite the small numbers (Misuse of Facility Fraud accounted for just 6% of all frauds on mail order accounts) the fraudulent misuse of mail order accounts increased by 126%. The main reason for recording these frauds was as a result of the evasion of payment: people had ordered goods in their own name, but with no intention of paying for them. This scenario appears to have become increasingly common, perhaps due to the difficult financial circumstances still facing many people. There is clearly a minority that still feel the need to have desirable goods, but are resorting to fraudulent activity in order to obtain them.

Loans

A continuing trend over the past couple of years has been the steady increase in the number of loan frauds. In the first six months of 2013, there was a 70% surge in comparison with the last half of 2012, driven by a 103% increase in those recorded as Identity Frauds. Of those identified in the first half of 2013, 86% were recorded as current address frauds; an increase from just 68% from the last half of 2012.

As expected, the majority of loan frauds were for personal (unsecured) and payday loans; showing the fraudulent abuse of the services that have become more prevalent in recent years. The fact that the majority of these services are available online explains the increase seen in the proportion of loan frauds; up from 57% in the last six months of 2012 to 67% in the first half of 2013. Clearly, fraudsters attempted in some cases to impersonate individuals whom they knew to have a sufficiently good credit history in order to be granted a personal loan. Additionally, they have obtained sufficient personal information to allow them to impersonate individuals successfully.

As such a high proportion of business is transacted online (and many such loans are granted instantly), fraudsters are evidently taking advantage of this to obtain quick cash illegally.

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