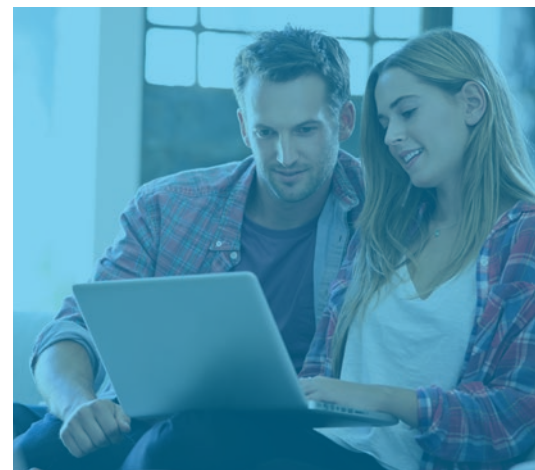




Accountants &
business advisers



Annual Fraud Indicator 2016



May 2016



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Introduction

Experian, PKF Littlejohn and the University of Portsmouth's Centre for Counter Fraud Studies have created a partnership to help consistently gauge, analyse and quantify the true scale of fraud in the UK.

The work is underpinned by a group of cross-sector fraud experts who regularly meet under a broad umbrella known as the United Kingdom Fraud Costs Measurement Committee (UKFCMC). Jim Gee, Head of Forensic and Counter Fraud Services at PKF Littlejohn, chairs the UKFCMC. Nick Mothershaw, Director of Fraud and Identity Solutions for Experian, is its vice-chair. Professor Mark Button, Director of the Centre for Counter Fraud Studies at University of Portsmouth, is the UKFCMC's secretary.

It includes members from the UK's public, private and charitable sectors - but crucially all have a specific expertise in fraud - and it's their discussions, input and supporting research, that have helped make this report possible.

The research team was led by Professor Mark Button and included David Shepherd, Dean Blackburn and Dr Martin Tunley.

The methodology used has been developed in line with the ground-breaking work of the now defunct National Fraud Authority put together to help lay down a benchmark by which year-on-year sector-specific fraud analysis can be made from here on.

A person is riding a black bicycle on a paved surface. The person is wearing a grey t-shirt, black pants, and orange and white sneakers. They are holding the handlebars with their right hand, which has a gold watch. The background shows green trees and a brick building. A blue semi-transparent overlay covers the middle of the image, containing a quote in white text. The quote is enclosed in a white rectangular frame with quotation marks at the corners.

“
**Unsurprisingly, the results
make for sobering reading
and highlight the prevalence
fraud has on our lives.**
”



**Annual UK
fraud losses**
could be

£193 billion

**Private Sector
fraud losses
estimated**
to be

£144 billion
per year

Public Sector fraud estimated at

£37.5 billion
per year

Charities and charitable
trusts are believed to be
losing up to
£1.9 billion



every year to fraud



Fraud committed
directly against
individuals is
estimated at around

£10 billion
a year

Expert views



No one knows the true cost of fraud in the UK, but it's taking place on an industrial scale and is without question one of the biggest crimes afflicting UK plc today. It is unrelenting and indiscriminate with many organisations estimated to be losing around five per cent of their annual revenue to fraud.

The state infrastructure has a modest impact on fraud and means it's largely down to industry, business and commerce to take steps to protect themselves. Inside, the prevalence, frequency and features of key losses are outlined.

The strengths and weaknesses of different sectors in tackling fraud, error and loss are also highlighted. But it's also clear there are huge variances in the size of losses and the quality of counter fraud strategies across the sectors.

By highlighting Britain's vulnerabilities to fraud, it is hoped our resilience to the crime can be tackled from the grass-roots up.

Professor Mark Button
Director of the Centre for Counter Fraud Studies
University of Portsmouth.

Professor Mark Button is Director of the Centre for Counter Fraud Studies at the Institute of Criminal Justice Studies, University of Portsmouth. He has written extensively on counter fraud and private policing issues, publishing numerous articles, chapters and completing seven books with more in the pipeline.

Some of his most significant research projects include leading the research on behalf of the National Fraud Authority and ACPO on fraud victims, the Department for International Development on fraud measurement, Acromas (AA and Saga) on 'Cash-for-Crash fraud', the Midlands Fraud Forum, law firm Eversheds and forensic accountancy firm PKF, on 'Sanctioning Fraudsters'.

Mark has also acted as a consultant for the United Nations Offices on Drugs and Crime on Civilian Private Security Services and for the United Nations Development Programme on Improving the Civilian Oversight of Security in Turkey.

He currently holds the position of Head of Secretariat of the Counter Fraud Professional Accreditation Board. Before joining the University of Portsmouth he was a Research Assistant to the Rt Hon Bruce George MP, specialising in policing, security and home affairs issues. Mark completed his undergraduate studies at the University of Exeter, his Masters at the University of Warwick and his Doctorate at the London School of Economics.

Unless you know the nature and scale of fraud, how can you implement an effective solution?

On behalf of the UK Fraud Costs Measurement Committee I am pleased to present our 2016 estimate of the cost of fraud to UK Plc. This is important because it is the cost of fraud that undermines the financial health and stability of private companies, that stops public sector organisations providing the quality of public services for which we pay our taxes and which denies charities the full value of the donations which we make.

After many years of research we now know that fraud isn't just a series of low volume, high value incidents which, if you are lucky, you can avoid, and which, if you are not, you react to after losses have been discovered. We now know that it is a mostly high volume, low value phenomenon which is present in any organisation of any size as an ongoing business cost, and which is best pre-empted by raising levels of fraud resilience (a measure of protection against fraud).

The publication of this report makes the true nature and scale of the problem much clearer, something which will develop further with future annual reports, and as measurement of the nature and scale of the problem is undertaken more and more widely. It is obvious that the more you know about a problem, the better you can design an effective solution. In that way, this report makes an important contribution to the success of counter fraud work.

Jim Gee
Partner and Head of Forensic & Counter Fraud Services
PKF Littlejohn LLP



Jim Gee is Partner and Head of Forensic and Counter Fraud Services at PKF Littlejohn. He is also Visiting Professor at the University of Portsmouth and Chair of the Centre for Counter Fraud Studies, Europe's leading centre for research into fraud and related issues.

During more than 25 years as a counter fraud specialist, he has advised Ministers, Parliamentary Select Committees and the Attorney-General, as well as national and multi-national companies and some of the most prominent charities. To date he has worked with clients from 38 countries.

He specialises in helping organisations reduce the cost and incidence of fraud through strengthening the resilience to fraud of relevant processes and systems.

Jim is widely published and recent publications include The Financial Cost of Fraud, a global study published last year and The Resilience to Fraud of UK Plc, a report on how different UK economic sectors protect themselves against fraud, to be repeated this year.

He has also co-authored a book, with Professor Mark Button from the University of Portsmouth, called 'Countering Fraud for Competitive Advantage' which was published globally in 2013. This explains how cutting the cost of fraud can boost profitability. His second book, 'The Handbook for Accredited Counter Fraud Specialists', was published in early 2015.'



The UK fraud picture is punctuated by some mind-boggling numbers, clearly as a result of sustained, organised and deliberate attacks on consumers, commerce, industry and government alike.

We're all at risk and we all share a common responsibility for vigilance because the fraudsters will continue to be inventive, adaptable and willing to exploit any perceived weaknesses in any back-office operation.

The good news is that the figures lay down a benchmark and indicate where the vulnerabilities may lie.

Clearly, increasing effort and investment in seamless digital offerings that can continue to offer the same level of due diligence and consumer protection, with real-time alerts to identify high-risk and fraud activity, will be critical. In the meantime, the growth of the Internet of Things will also make the development of improved fraud prevention systems hugely important.

Unfortunately Fraudsters remain innovative - Consumers need to continue to be vigilant in the protection of their own Identity.

The shift to consumer-centric digital identities, where a consumer re-uses a single, strongly verified digital identity to access many different online services, will help combat ID theft. However, it will also undoubtedly introduce new types of fraud attack that we must be prepared to defend against.

Nick Mothershaw
Director of Fraud and Identity Solutions, Experian.

Nick is responsible for the strategic development of Experian's fraud and identity solutions.

The Identity Solutions portfolio includes electronic ID validation and ID verification through challenge questions or document verification. Experian now offers a full Identity as a Service solution, including ID proofing and strong credential management, and is one of the consumer identity providers within the GOV.UK/Verify scheme. Fraud solutions in the portfolio include Device Fraud (FraudNet) and Application Fraud (Detect and Hunter).

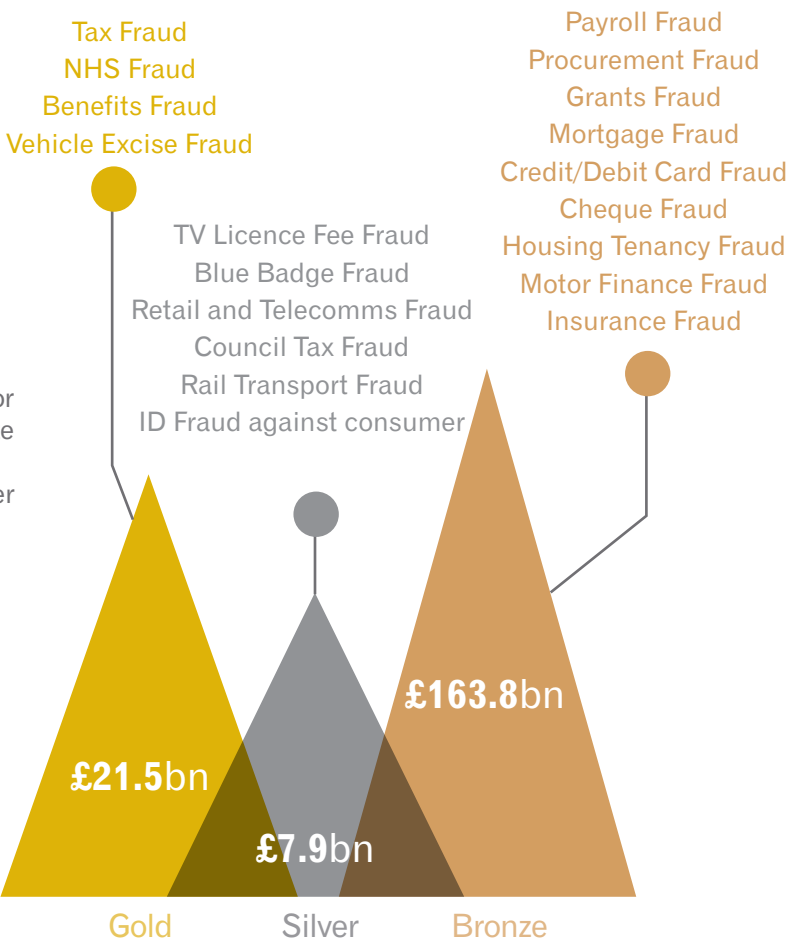
Key to the role is to ensure clients gain maximum value from our solutions by offering highly skilled consultancy services, expert analytics, trend analysis and insight around our fraud products, fitting our solutions to clients' specific needs.

Nick has been with Experian for more than 12 years. Previously, he was a director of a company providing global solutions within the broader criminal justice arena. Here he developed the Scottish Intelligence Database - the only cross-force intelligence sharing and matching solution in the UK.

Nick is also Vice-Chair of the UK chapter of the Open Identity Exchange (OIX), a member organisation whose mission is to define open policies and standards that will allow a marketplace of interoperable Digital Identities to be created in the UK.

Overview and analysis

The report’s methodology was overseen and reviewed by an independent panel of fraud experts drawn from a broad cross-section of private and public sectors before being categorised gold, silver or bronze. For each fraud category, the most appropriate estimates were applied - particularly in instances when available data was not as credible as the higher quality and up-to-date gold standard data. A detailed summary can be found in the Appendix.



UK fraud by sector



Classification and confidence

Category	Definition
Gold	Gold standard analysis is met when a statistically valid sample of expenditure / income has been examined, with a clear and legally-anchored concept of fraud applied. Estimates produced offer a 90% minimum level of statistical confidence with an accuracy level of + or – 2.5%, or better. Results have also been independently validated. Also included in the Gold standard were statistically valid assessments of levels of victimisation of individuals, conducted by reputable organisations.
Silver	The Silver standard is met when detected cost levels of fraud have been identified and underpinned by a credible estimate of undetected fraud to offer a credible total fraud cost.
Bronze	The Bronze standard is met when an attempt at identifying the cost of fraud has been made, but there may be limited confidence in its credibility.

Where a confidence category is followed with a # symbol, data has been uprated to the most recent costs based on the Bank of England Inflation Calculator.

Private sector fraud

It is estimated private sector fraud could cost the UK economy up to £143.6 billion. But further analysis suggests that may be a conservative figure, given the general sentiment among our biggest businesses against releasing commercially sensitive, or potentially damaging, financial fraud data.

Right now no comprehensive data exists in the public domain in the UK. As a result, the gold standard level of risk may be artificially low and is likely to stay under wraps for the foreseeable future. It's well known that in-depth fraud studies have been commissioned in some sectors but they have rarely been publicised. It's fair to say, private sector fraud estimates are less robust than for the public sector – but many agree the actual picture is gloomier than the one currently being painted – particularly given the scale of potential losses.

The value of private sector expenditure and income generated from sales is huge. During 2014, the private sector – even without including banking and finance – spent nearly £2.7 trillion on procurement (ONS, 2014a), while generating £3.5 trillion in sales (BIS, 2014). By comparison, GDP for the same period was £1.7 trillion (ONS, 2015a). In the past fraud losses have been directly linked to GDP, but it's a blunt measure simply based on a proportion of the value added to the economy – rather than as a proportion of actual expenditure or income.

Financial sector estimates also exclude investment activities, which generate revenue but are not strictly customer facing sales activities. But any related frauds, which are generally perpetrated by employees, can be prone to spectacular losses. There are also no precise estimates for losses to delinquent corporations, rogue governments or state-sponsored cyber crime.

Procurement Fraud

A significant proportion of the costs of fraud in this report have been attributed to procurement fraud. The procurement of goods and services often accounts for a significant slice of an organisation's expenditure and is open to a wide range of potential risks of fraud. This is because there are usually multiple individuals involved in a process who often do not work closely together, i.e. the person who wants something purchased does not always work directly with the people who initiate orders and with those responsible for paying. There are often multiple opportunities for fraud in procurement and some of the most common are listed below:

- Legitimate suppliers adding unauthorised additional cost to an invoice
- Legitimate suppliers colluding with staff to add additional costs to an invoice
- Fraudulent suppliers/staff submitting false invoices for payment
- Fraudulent suppliers/staff diverting legitimate payments to legitimate suppliers to themselves
- Under-provision of goods and services in terms of quality or quantity

Procurement fraud is estimated to be £127 billion – or 4.78% - of the £2.7 trillion of total expenditure

Counting the cost of procurement and payroll fraud

Clearly, procurement expenditure of nearly £2.7 trillion and sales income of £3.5 trillion in the non-financial private sector means that even a low rate of fraud will result in very sizeable losses.

Procurement estimates include expenditure on everything from goods, materials and services, to spending on large-scale capital projects. They also include expenses. But the total value of procurement expenditure data excludes the financial sector and, as a result, its coverage only really relates to around two-thirds of the UK economy (ONS, 2014a).

Total value of payroll expenditure includes income tax, employees' national insurance and employers' national insurance.

It has been calculated by assuming an average salary of £25,012 per year (ONS, 2014d) and - for ease of calculation given the available data – accepted that the 13.8% contribution rate for employers' national insurance is the same for all staff across all business categories. Other forms of business taxation, such as corporation tax, are outside the scope of our analysis.

In order to maintain consistency, a procurement expenditure fraud loss rate of 4.78% and a payroll fraud loss rate of 1.7%, applied elsewhere to public sector expenditure, have been adopted to gauge the losses.

Procurement fraud is estimated to be £127 billion – or 4.78% - of the £2.7 trillion of total expenditure. Total losses from payroll expenditure are estimated to be £12 billion – or 1.7% - from an expenditure of £690 billion. The aggregate loss is nearly £139 billion.

Case Studies

In February 2015 two men were convicted after they had been found to have submitted 90 false invoices to their company amounting to £700,000 for 'system maintenance work' for which no such work was delivered (City of London Police, 2015).

In 2012 three men were convicted for their part in a major bribery case involving the award of contracts from a major supermarket for potatoes. The men had taken bribes to award the contracts and amounted to over £9 million in losses.

Procurement and payroll fraud by company size

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure (£million)	Fraud (£million)	Fraud %
Small enterprises	36,393	Procurement fraud	Bronze#	UK	2013	643,390	30,776	4.78%
		Payroll fraud	Bronze	UK	2013/14	330,414	5,617	1.70%
Medium enterprises	20,902	Procurement fraud	Bronze#	UK	2013	407,077	19,472	4.78%
		Payroll fraud	Bronze	UK	2013/14	84,080	1,430	1.70%
Large enterprises	81,762	Procurement fraud	Bronze#	UK	2013	1,611,396	77,081	4.78%
		Payroll fraud	Bronze	UK	2013/14	275,373	4,681	1.70%
Total						139,057		

Plugging in to cyber-fraud

During the past 12 months, the UK saw a significant jump in phishing attacks as cyber criminals increasingly targeted consumers and company staff with online scams.

Figures from government-backed cyber security body GetSafeOnline, found that phishing attacks rose by more than a fifth (21%) last year and were estimated to cost Britain more than £280 million.¹

The organisation has also partnered with the National Fraud Intelligence Bureau, along with a number of leading UK banks and anti-crime bodies, to launch a new campaign warning of the dangers of online and social engineering scams, fake phone calls and emails. It comes as the number of phishing scams reported between November 2014 and October 2015 topped 95,500, according to figures from Action Fraud.

But additional research from Get Safe Online indicates that more than one in four (26%) of those who fell foul of online crime were typically scammed by a combination of either social engineering emails or phone calls.

“
The number of phishing scams reported between November 2014 and October 2015 topped 95,500
 ”

¹Cybercrime is getting personal - GetSafeOnline - <https://www.getsafeonline.org/press/cybercrime-is-getting-personal-one-in-five-victims-think-they-were-specific/>

Phishing attacks rose by more than a fifth (21%) last year and were estimated to cost Britain more than £280 million.

Unsurprisingly, email phishing proved the most commonplace scam, accounting for more than three out of four (77%) of all reported incidents, followed by phone calls, which accounted for around one in ten (12%) incidents.

Nearly one in three (29%) reported phishing emails were also found to contain a potentially malicious link which, when clicked, could directly deliver malware to the users' computer, or request their personal details.

The favoured angles and guises for phishing scams hinge on an unsolicited email impersonating a legitimate company or organisation.

Financial sector sales fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Sales/ transactions (£million)	Fraud (£million)	Fraud %
Financial sector sales	3,175	Insurance fraud	Bronze#	UK	2013/14	220,000	1,323	0.60%
		Mortgage fraud	Bronze#	UK	2013/14	205,922	1,310	0.64%
		Plastic card fraud	Bronze#	UK	2014	608,648	450	0.07%
		Online banking fraud	Bronze#	UK	2014	na	41	na
		Cheque fraud	Bronze#	UK	2014	511,267	28	0.01%
		Telephone banking fraud	Bronze#	UK	2014	na	12	na
		Motor finance fraud	Bronze#	UK	2013/14	32,400	11	0.03%
Total						3,175		

Insurance industry identifies record-high of £3.6 million of fraud every day

Insurance industry body the Association of British Insurers (ABI), revealed 350 insurance frauds valued at £3.6 million were being uncovered every day last year.² It equated to more than £1.3 billion per year, marking a three per cent year-on-year rise on 2013, with the value of frauds detected now at an all-time high. The ABI's figures also revealed:

- Insurers detected 130,000 fraudulent claims during the same period.
- Between 2009 and 2014 the overall value of frauds detected had risen by more than half (57%).
- Dishonest motor insurance frauds were most common and of highest value with 67,000 detected, up by 12 per cent on 2013 and costed at £835 million.
- The number of liability insurance frauds detected jumped by three-quarters (75%) to 19,800, with a value of £330 million, marking a rise of a fifth (20%) on 2013.

But the detection rate also highlights insurers' determination and greater focus on bogus liability claims, so-called 'slip and trip' scams and industrial deafness complaints. The fall in the number of bogus domestic and commercial property insurance claims, reflects determined moves by the industry to tackle criminality. In 2014, the number of detected property frauds was 24,533, down nearly a third (29%) year-on-year, with the detected value of £108 million also down by more than a fifth (21%).

Mortgage fraud

Given there are 11.1 million mortgages in the UK, underpinned by borrowing worth more than £1.3 trillion, home loans continue to be an attractive target for fraudsters.³

But calculating a reliable estimate of mortgage fraud has been challenging for the mortgage lending community. During the past five years, experts from most of the UK's main lenders, representing 98% of the mortgage market, were canvassed to gauge their opinion on mortgage fraud losses. The consensus estimate of fraud losses to the industry was around £1 billion.⁴

Analysis by Experian and National Hunter, an anti-fraud data-sharing system used by members of the financial services industry, showed the proportion of detected mortgage fraud cases was around 84 cases per 10,000 applications, although the broad trend has been steadily falling.⁵

Last year, the vast majority of mortgage fraud being attempted by applicants included lying about hidden or adverse credit, non-disclosure of critical financial information, or misrepresenting employment status.

²You could not make it up, but they did - ABI - <https://www.abi.org.uk/News/News-releases/2015/07/You-could-not-make-up-Savings-honest-customers-insurers-expose-3-6-million-worth-insurance-frauds>

³House purchase lending up 18% year-on-year - CML - <https://www.cml.org.uk/news/press-releases/november-press-release/>

⁴Annual Fraud Indicator - NFA - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206552/nfa-annual-fraud-indicator-2013.pdf

There are pockets of reliable data relating to retail fraud, telecoms fraud and fare evasion. The British Retail Consortium estimates current total sales fraud losses at £223 million per year (BRC, 2015). It is a comparably low 0.06% of the total sales for the sector (ONS, 2014e). Retail fraud losses in the USA are currently estimated at US\$60 billion (£42 billion) a year and represent around 1.3% of sales.⁶

Non-financial sector sales fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Sales (£million)	Fraud (£million)	Fraud %
Non-financial sector sales	1,363	Retail	Silver	UK	2014	371,956	223	0.06%
		Telecoms fraud	Silver#	UK	2013	38,600	926	2.40%
		Rail transport fare evasion	Silver#	UK	2013	8,200	214	2.61%
						Total	1,363	

The telecoms fraud loss rate of 2.4% has been directly adopted from the National Fraud Authority's analysis in 2013, before being applied to the £38.6 billion of industry sales recorded in 2014 (Ofcom, 2014).

Similarly, the rail transport fraud figure is made up predominantly by fare dodgers and has been inflated by two per cent since the NFA's 2013 report.

⁵Fraud Report 2015 - Experian - http://www.experian.co.uk/identity-and-fraud/fraud-statistics/?utm_source=direct&utm_medium=bottominclude&result=success

⁶US Retail Fraud Survey - <http://www.retailfraud.com/us-retailers-losing-60-billion-a-year-to-fraud/>

Sources: NFA (2013); ONS (2014e); Ofcom (2014); Office of Rail Regulation (2015)

Public sector fraud

Public sector fraud accounted for £37.5 billion, or 5.5% of the £694 billion spent by central and local government in 2013/14 - excluding debt interest (HM Treasury, 2014). Crucially, public sector fraud in the UK in the areas of central taxation and benefits is subject to some of the most accurate and critical fraud loss measurement. Below, we have analysed the estimates further into discrete income and expenditure categories.

Central Government tax fraud

The estimate of tax losses to fraud is derived from robust data amounting to £15.4 billion or 3% of the £510 billion collected in tax revenue.

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Sales (£million)	Fraud (£million)	Fraud %
Central Government	15,435	Tax fraud	Gold	UK	2012/13	504,000	15,400	3.06%
		Vehicle excise fraud	Gold	UK	2013/14	5,800	35	0.60%
						Total	15,435	

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Public sector fraud accounted for £37.5 billion, or 5.5% of the £694 billion spent by central and local government in 2013/14

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The Government's own estimate of TV licence evasion losses was put at £205 million

TV licence fee income

Central government generates around £20 billion a year from the sale of goods and services, licences, fee income and the sales of assets (HM Treasury, 2014).

TV licence fee and NHS prescription charges are put under the spotlight below, given they have the potential to be at risk as a result of consumers not paying, or by falsely claiming exemption from prescription charges.

The Government's own estimate of TV licence evasion losses was put at £205 million (TV Licensing, undated).

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income (£million)	Fraud (£million)	Fraud %
Central Government other income	205	Television licence fee evasion	Silver	UK	2014	3,726	205	5.50%

NHS England fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/ expenditure (£million)	Fraud (£million)	Fraud %
NHS England	2,472	Dental charge fraud	Gold#	E	2013/14	1,132	43	3.80%
		Optical charge fraud	Gold#	E	2013/14	766	23	3.00%
		Prescription charge fraud	Gold#	E	2013/14	7,676	237	3.09%
		Dental contractor fraud	Bronze#	E	2013/14	3,010	121	4.02%
		Phamaceutical contractor fraud	Bronze#	E	2013/14	2,094	83	3.96%
		Optical contractor fraud	Bronze#	E	2013/14	518	13	2.51%
		General practice contrac- tor fraud	Bronze#	E	2013/14	7,632	349	4.57%
		Other procurement fraud	Bronze	E	2013/14	21,900	1,048	4.78%
		Payroll fraud	Bronze	E	2013/14	32,660	555	1.70%
Total						2,472		

The total spent on the NHS in England in 2013/14 was £109.7 billion (Gee and Button, 2015b). Areas examined covered £67.7 billion of expenditure - procurement, payroll, dental, pharmaceutical, optical and GP fraud – as well as £9.57 billion of income from dental, optical and prescription charges.

Losses relating to expenditure total £2.169 billion. Losses relating to income total £303 million.

NHS gold standard measurements of patient charges fraud were applied to the latest data to estimate total fraud losses at £303 million (Gee and Button, 2015b).

The figures for the medical contractor frauds are adopted from the study by Gee and Button (2015b).

The total loss from £21.9 billion of procurement expenditure is estimated to be £1.05 billion, while the total loss to payroll fraud is estimated to be £0.56 billion.

Local government fraud (excluding benefits)

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/ expenditure (£million)	Fraud (£million)	Fraud %
Local government (excluding benefits)	7,319	Blue Badge Scheme misuse	Silver#	E	2013-14	1,547	48	3.10%
		Housing tenancy fraud	Bronze#	E	2013-14	na	1,755	na
		Procurement fraud	Bronze	UK	2013/14	86,354	4,131	4.78%
		Payroll fraud	Bronze	UK	2013/14	65,171	1,108	1.70%
		Grant fraud	Bronze	UK	2013/14	5,063	198	3.91%
		Pension fraud	Bronze	UK	2013/14	2,023	79	3.91%
						Total	7,319	

Local and regional government expenditure in 2013/14 was £160 billion (HM Treasury, 2014). Total estimated fraud losses amounted to £7.3 billion. Much of the data available concerning fraud in local government was bronze quality data with some silver quality data.

In line with procurement and payroll fraud for central government and the NHS, the same analysis was applied producing fraud losses of £4.1 billion and £1.1 billion respectively.

For housing tenancy fraud, the same methodology used by the NFA to assess losses was used. It is now at £1.76 billion.

Blue Badge fraud – the fraudulent misuse of disabled parking permits – was also based on NFA analysis and currently estimated to be £48 million (NFA, 2013).

Fraud involving grant expenditure was estimated to accrue annual losses of £198 million.

Similarly, analysis of fully funded local government pensions, resulted in estimated losses of £79 million.

Benefits and tax credits fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/ expenditure (£million)	Fraud (£million)	Fraud %
Benefit and tax credits	2,370	Housing benefit fraud	Gold	E,S,W	2013/14	24,200	430	1.78%
		Income support	Gold	E,S,W	2013/14	3,700	100	2.70%
		Jobseekers allowance	Gold	E,S,W	2013/14	4,400	110	2.50%
		Employment and support allowance	Gold	E,S,W	2013/14	10,500	130	1.24%
		Pension credit	Gold	E,S,W	2013/14	7,200	150	2.08%
		Incapacity benefit	Gold#	E,S,W	2010-14	1,200	4	0.33%
		Disability living allowance	Gold#	E,S,W	2005-14	13,800	70	0.51%
		Carer's allowance	Gold#	E,S,W	1997-14	2,100	80	3.81%
		State pension	Gold#	E,S,W	2005-14	83,100	na	na
		Council tax reduction fraud	Silver#	E,S,W	2012/13	4,900	60	1.22%
		Tax credit fraud	Gold#	UK	2013-14	29,394	1,146	3.90%
		Other	Bronze	E,S,W	2013/14	13,800	90	0.65%
Total						2,370		

The most accurate and extensive data collected by Government on fraud losses relates to benefits fraud. It is nearly all regarded as gold standard data. Estimated losses currently stand at £2.4 billion to the Government.

Central government expenditure fraud

Central government spends around £269 billion (excluding NHS England) a year, even when benefits, local authority financing and debt interest are excluded (HM Treasury, 2014). The types of fraud associated with that level of expenditure have been further analysed and categorised into distinct areas of expenditure.

They include procurement, payroll, grant fraud, pension fraud, along with National Savings and Investment fraud. For each, best estimates were derived in calculating the fraud losses. It was estimated that the total value of fraud was £10 billion, or 3% of the Government's total £337 billion annual spend.

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure (£million)	Fraud (£million)	Fraud %
Central Government (excluding benefits)	10,020	Procurement fraud	Bronze	UK	2013/14	112,189	5,363	4.78%
		Payroll fraud	Bronze	UK	2013/14	66,537	1,131	1.70%
		Grant fraud	Bronze	UK	2013/14	68,659	2,685	3.91%
		Student finance fraud	Bronze#	E,W,NI	2013-14	10,473	409	3.91%
		Pension fraud	Bronze	UK	2013/14	9,296	363	3.90%
		National Savings and Investments fraud	Bronze	UK	2013/14	2,010	69	3.43%
						Total	10,020	

Central government spends around £269 billion a year, even when benefits, local authority financing and debt interest are excluded

Central government spends nearly £112 billion (HM Treasury, 2014) on procurement. As a result, there are clearly many opportunities for frauds to take place, including false invoices, additional items on invoices, goods and services ordered for private gain, under-provision of goods or overcharging.

In the past, several unpublished loss measurements have been made relating to procurement expenditure. Findings have ranged from 7.8% to nearly 19%. But our panel of fraud experts reviewed the figures and opted for prudence, estimating losses at 4.78%, resulting in a total of £5.4 billion of losses in this area.

Unsurprisingly, payroll is also a significant area of expenditure in central government, amounting to nearly £67 billion a year (HM Treasury, 2014).

Fraud analysts reviewed the data in line with benchmarks used elsewhere in other public sector fraud measurements and opted for consistency by applying a loss rate of 1.7 per cent (Gee and Button, 2015a). It yields an estimated annual fraud loss of £1.1 billion.

Similar analysis of fraud involving grant expenditure delivered an estimate of £2.7 billion of annual losses.

Student finance fraud was also analysed and adjusted in line with average welfare and health expenditure resulting in an estimated annual loss of £409 million.

In analysing fraud within fully funded pensions paid by the Government to former civil servants, the welfare and health benchmark was also deemed to be the most appropriate measure, producing an annual estimated loss of £363 million.

National Savings and Investments were also put in the spotlight resulting in an estimated annual loss of £69 million

Charities

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure/ income (£million)	Fraud (£million)	Fraud %
Registered Charities in UK	1,858	Expenditure:						
		Procurement fraud	Bronze	UK	2013/14	16,224	776	4.78%
		Payroll fraud	Bronze	UK	2013/14	52,143	886	1.70%
		Grant fraud	Bronze	UK	2013/14	5,000	196	3.92%
Total						1,858		

Charity sector fraud is estimated to cost around £1.9 billion, representing 2.5% of the sector's annual £74 billion income and expenditure (BIS, 2014). It is also worth noting that the sector does not just include voluntary and aid organisations. There are 164,348 registered charities in England and Wales alone serving a host of causes from aid, education, welfare, professional institutions, religious bodies, arts, research, to housing – and more.

But as with much of the private sector there is no comprehensive gold standard to precisely benchmark the available data against.

Fraud analysts looked at several sets of figures including recent studies by the National Fraud Authority (2013) and adjusted DWP datasets (DWP, 2014).

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Fraud against individuals

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure (£million)	Fraud (£million)	Fraud %
UK Adult Population	9,730	Mass marketing fraud	Gold#	UK	2006-13	831,532	3,562	0.43%
		Identity fraud	Silver#	UK	2013-14		5,396	0.65%
		Private rental property fraud	Silver#	UK	2010-13	37,317	769	2.06%
		Prepayment meter scams	Silver#	UK	2013-14	na	3	na
						Total	9,730	

Fraud against UK citizens is estimated at £9.7 billion per year, which is a relatively modest 1.2 per cent of the £831 billion annual family expenditure. A host of datasets were carefully considered in a bid to help ensure accuracy and avoid any double-counting.

The last time mass marketing fraud was reviewed was by the OFT in 2006. The study revealed a likely fraud rate of 6.5 per cent. Despite its relative age, fraud analysts uprated the numbers to allow for inflation and changes in population. As a result, it is now estimated there are currently 3.25 million victims every year with annual combined losses of around £3.6 billion. But given the rise in identity theft and prevalence of cyber-crime as covered in earlier sections, it is fair to say figures are an under-estimate.

The England and Wales crime survey is being revised to better accommodate these types of crime and is likely to produce a more accurate picture of fraud in this area in the future (ONS, 2015b).

Identity fraud has been growing steadily over the past 10 years as a problem. Again, fraud analysts scrutinised a host of data sets to yield an estimated loss of £5.4 billion per year.

Both the private rental property fraud rate and the pre-payment meter scam rates shown in the table above were analysed from the previous NFA (2013) report and adjusted in line with current trends to bring them up to date.

Fraudsters are fast, inventive, adaptable and willing to quickly exploit new opportunities

Conclusion

There's no question fraud in Britain is taking place on an industrial scale. We've highlighted how it could be costing the UK economy up to £193 billion a year. But given a significant slice of that is in procurement, where analysis has been underpinned by incomplete data and best estimates, more work clearly needs to be done to continue measuring the scale of the problem.

Despite a broadly conservative and prudent approach being adopted in this report, it is likely annual fraud estimates are being under-evaluated.

But irrespective of any specific challenges thrown up, the project has enabled a benchmark to be laid down against which further fraud analysis can be measured.

It's also a dynamic crime. Fraudsters are fast, inventive, adaptable and willing to quickly exploit new opportunities. From here on, as the available data improves and expertise is further expanded, the report will be able to highlight how and where you and your customers may be at risk, along with the best way to ensure they can be safeguarded.

In the meantime, the speed and shape of global innovation, along with the growth of the Internet of Things, make on-going investment in the development of improved fraud detection systems ever more important.

For live and up-to-date hints, tips, news and information on emerging fraud trends, or to simply join the debate online, please visit the live Twitter feed.



#CostofFraud

Appendix and references

The complete cost of fraud table

Sector	Fraud loss by victim sector (£million)	Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income (£million)	Fraud (£million)	Fraud %
Private Sector	143,595	Expenditure small enterprises	36,393	Procurement fraud	Bronze#	UK	2013	643,390	30,776	4.78%
				Payroll fraud	Bronze	UK	2013/14	330,414	5,617	1.70%
		Expenditure medium enterprises	20,902	Procurement fraud	Bronze#	UK	2013	407,077	19,472	4.78%
				Payroll fraud	Bronze	UK	2013/14	84,080	1,430	1.70%
		Expenditure large enterprises	81,762	Procurement fraud	Bronze#	UK	2013	1,611,396	77,081	4.78%
				Payroll fraud	Bronze	UK	2013/14	275,373	4,681	1.70%
		Financial sector sales	3,175	Insurance fraud	Bronze#	UK	2013/14	220,000	1,323	0.60%
				Mortgage fraud	Bronze#	UK	2010-14	205,922	1,310	0.64%
				Plastic card fraud	Bronze#	UK	2014	608,648	450	0.07%
				Online banking fraud	Bronze#	UK	2014	na	41	na
				Cheque fraud	Bronze#	UK	2014	511,267	28	0.01%
				Telephone banking fraud	Bronze#	UK	2014	na	12	na
				Motor finance fraud	Bronze#	UK	2013/14	32,400	11	0.02%
		Non-financial sector sales	1,363	Retail	Silver	UK	2014	371,956	223	0.06%
				Telecoms fraud	Silver#	UK	2013	38,600	926	2.40%
				Rail transport fare evasion	Silver#	UK	2013	8,200	214	2.61%
Public Sector	37,821	Central Government	15,435	Tax fraud	Gold	UK	2012/13	504,000	15,400	3.06%
				Vehicle excise fraud	Gold	UK	2013/14	5,800	35	0.60%
		Central Government other income	205	Television licence fee evasion	Silver	UK	2014	3,726	205	5.50%
		NHS England	2,472	Dental charge fraud	Gold#	E	2013/14	1,132	43	3.80%
				Optical charge fraud	Gold#	E	2013/14	766	23	3.00%
				Prescription charge fraud	Gold#	E	2013/14	7,676	237	3.09%
				Dental contractor fraud	Bronze#	E	2013/14	3,010	121	4.02%
				Pharmaceutical contractor fraud	Bronze#	E	2013/14	2,094	83	3.96%
				Optical contractor fraud	Bronze#	E	2013/14	518	13	2.51%
				General practice contractor fraud	Bronze#	E	2013/14	7,632	349	4.57%
				Other procurement fraud	Bronze	E	2013/14	21,900	1,048	4.78%
				Payroll fraud	Bronze	E	2013/14	32,660	555	1.70%

Sector	Fraud loss by victim sector (£million)	Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income (£million)	Fraud (£million)	Fraud %		
Public Sector		Local government (excluding benefits)	7,319	Blue Badge Scheme misuse	Silver#	E	2013-14	1,547	48	3.10%		
				Housing tenancy fraud	Bronze#	E	2013-14	na	1,755	na		
				Procurement fraud	Bronze	UK	2013/14	86,354	4,131	4.78%		
				Payroll fraud	Bronze	UK	2013/14	65,171	1,108	1.70%		
				Grant fraud	Bronze	UK	2013/14	5,063	198	3.91%		
				Pension fraud	Bronze	UK	2013/14	2,023	79	3.91%		
		Benefit and tax credits	2,370	Housing benefit fraud	Gold	E,S,W	2013/14	24,200	430	1.78%		
				Income support	Gold	E,S,W	2013/14	3,700	100	2.70%		
				Jobseekers allowance	Gold	E,S,W	2013/14	4,400	110	2.50%		
				Employment and support allowance	Gold	E,S,W	2013/14	10,500	130	1.24%		
				Pension credit	Gold	E,S,W	2013/14	7,200	150	2.08%		
				Incapacity benefit	Gold#	E,S,W	2010-14	1,200	4	0.33%		
				Disability living allowance	Gold#	E,S,W	2005-14	13,800	70	0.51%		
				Carer's allowance	Gold#	E,S,W	1997-14	2,100	80	3.81%		
				State pension	Gold#	E,S,W	2005 -14	83,100	na	na		
				Council tax reduction fraud	Silver#	E,S,W	2012/13	4,900	60	1.22%		
				Tax credits fraud	Gold#	UK	2013-14	29,394	1,146	3.90%		
				Other	Bronze	E,S,W	2013/14	13,800	90	0.65%		
				Central government (excluding benefits)	10,020	Procurement fraud	Bronze	UK	2013/14	112,189	5,363	4.78%
						Payroll fraud	Bronze	UK	2013/14	66,537	1,131	1.70%
		Grant fraud	Bronze			UK	2013/14	68,659	2,685	3.91%		
		Student finance fraud	Bronze#			E,W,NI	2013-14	10,473	409	3.91%		
		Pension fraud	Bronze			UK	2013/14	9,296	363	3.90%		
		National Savings and Investments fraud	Bronze			UK	2013/14	2,010	69	3.43%		
Charity Sector	1,858	Registered charities	1,858	Procurement fraud	Bronze	UK	2013/14	16,224	776	4.78%		
				Payroll fraud	Bronze	UK	2013/14	52,143	886	1.70%		
				Grant fraud	Bronze	UK	2013/14	5,000	196	3.92%		
Adult individuals	9,730	UK Adult Population	9,730	Mass marketing fraud	Gold#	UK	2006-13	831,532	3,562	0.43%		
				Identity fraud	Silver#	UK	2013-14		5,396	0.65%		
				Private rental property fraud	Silver#	UK	2010/13	37,317	769	2.06%		
				Prepayment meter scams	Silver#	UK	2013-14	na	3	na		
Total									193,004			

Calculating procurement fraud

Procurement fraud represents a massive proportion of the UK's annual total fraud losses at £127 billion, from a total annual spend of £2,662 billion. The figures were reached by using the lowest fraud and error rate (FER) of 4.78% derived from several confidential loss measurement exercises. The error element was removed by applying the mean fraud / error adjustment factor (AF) of 61.3% to produce a subsequent fraud loss rate (FLR) of 4.78%.

Fraud losses were then calculated by applying the FLR to Government revenue and capital procurement expenditure as reported in PESA (HM Treasury, 2014) and the Annual Business Survey records (ONS, 2014a) for all sectors bar the financial sector. There is no precise data for the financial sector. It also excludes dental contractor fraud. There is also no official procurement expenditure data for the charity sector. But the charity sector's purchasing levels can be estimated by subtracting its £52,143 million payroll costs and £5,000 million of grants from the £73,367 million total turnover figure (BIS, 2014; ONS, 2014e). Procurement fraud estimates are based on the methodology below.

Private sector

Expenditure = £2,661,863 million

X

Fraud loss rate = 4.78%

The cost of fraud = £127,237 million

Charity sector

Expenditure = £16,224 million

X

Fraud loss rate = 4.78%

The cost of fraud = £776 million

Central government

Expenditure = £112,189 million

X

Fraud loss rate = 4.78%

The cost of fraud = £5,363 million
(excluding dental contractor fraud)

Local government

Expenditure = £86,354 million

X

Fraud loss rate = 4.78%

The cost of fraud = £4,128 million

Calculating payroll fraud

Payroll fraud is estimated to cost the UK more than £15 billion every year.

It was calculated using a 1.7% fraud only loss rate, which was derived from confidential public sector analysis. It is the largest such exercise ever undertaken.

Central and local government payroll expenditure is recorded in PESA (HM Treasury, 2014). There is no centrally provided figure for payroll expenditure for the private and charity sectors. But on the basis of using the best available information, the figures were derived by multiplying the average annual salary cost by the number of staff employed in each sector (ONS, 2014a; BIS, 2014). In 2014 the average salary cost across both the public and private sectors was £27,343. It includes £25,012 gross salary plus £2,331 employers national insurance.

The calculation of the cost of fraud in this area was based on this formula.

Central Government

(excluding NHS England)

Expenditure = £66,537 million

X

Fraud loss rate = 1.7%

The cost of fraud = £1,131 million

NHS England

Expenditure = £32,660 million

X

Fraud loss rate = 1.7%

The cost of fraud = £555 million

Local Government

Expenditure = £65,171 million

X

Fraud loss rate = 1.7%

The cost of fraud = £1,108 million

Private sector

Expenditure = £27,343 x 25,230,000

= £689,864 million

X

Fraud loss rate = 1.7%

The cost of fraud = £11,728 million

Charity sector

Expenditure = £27,343 x 1,907,000

= £52,143 million

X

Fraud loss rate = 1.7%

The cost of fraud = £886 million

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Notes

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