

Obtaining redress and improving outcomes for the victims of fraud

Understanding the fraud  
suffered by individuals and  
smaller businesses

# Civil justice initiative

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The Fraud Advisory Panel's civil justice initiative aims to encourage fraud victims (especially individuals and smaller businesses) to make more use of the civil courts in England and Wales when trying to get their money back, especially where a criminal investigation and prosecution is unlikely.

The initiative forms part of the national counter fraud strategy, Fighting Fraud Together, which is a partnership between the UK's public, private and voluntary sectors.

This publication is one of a series examining the current justice landscape and the options available to victims of fraud seeking to obtain redress and recover money.

The Fraud Advisory Panel is a registered charity and membership organisation which acts as the independent voice and leader of the counter-fraud community. It works to raise awareness of fraud and financial crime, and to help individuals and organisations prevent fraud for themselves.

[www.fraudadvisorypanel.org](http://www.fraudadvisorypanel.org)

# Introduction

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Fraud is now recognised as a major threat to the citizens, businesses and government of the United Kingdom. And yet its true impact on the UK economy, and its full effects on individuals and small and medium-sized businesses ('smaller businesses'), are only now beginning to be understood.

The purpose of this paper is to:

- provide an overview of fraud in the UK, including the problem of how much still goes unreported to official agencies;
- examine the nature, extent and impact of fraud on people and smaller businesses in England and Wales, including their financial losses; and
- identify what proportion of fraud is reported to law enforcement agencies, and how this may change in future.

## Overview of fraud

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Since 2006 fraud has grown in prominence in the UK, resulting in a concerted attempt by government, academia and others to assemble a clearer and more complete picture of the nature, extent and cost of fraud.

Currently fraud losses by all victims are estimated to be £73.0bn per annum, broken down thus: private sector £45.5bn, public sector £20.3bn, individuals £6.1bn, not-for-profit sector £1.1bn. (These figures include estimates for undetected fraud.)

Fraud occurs everywhere, but research suggests that it is concentrated in urban areas, especially the South-East (London) but also the North-West (Manchester) and the Midlands.

## Action Fraud statistics

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Action Fraud is the national fraud and internet crime reporting centre for the UK. It is the only service of its kind in the world, providing a single reporting point (a 'one stop shop') through which the general public, businesses and other organisations can report fraud.

To ensure consistency in the reporting, recording and counting of fraud, Action Fraud records incidents in the same way as the police forces of England and Wales, by following the Government's National Crime Recording Standard (NCRS) and Home Office Counting Rules (HOCR).

In the financial year 2011/12 Action Fraud received 48,525 reports of fraud and internet crime with a combined loss of £245.4m. Ninety-five per cent came from individuals, with the remaining 5% from organisations of all kinds, from all sectors – including smaller businesses.<sup>1</sup>

Action Fraud is not yet fully rolled-out to all UK police forces (the Government plans to extend the service in late 2012), and does not yet capture all reports of fraud in the UK. Nor is it able to profile the organisations that report to it. But it does provide the most reliable data on formally-reported fraud, and so provides a good indication of the types of fraud and associated losses suffered by individuals, smaller businesses and other organisations throughout England and Wales. For this reason Action Fraud data for the last financial year has been used as the foundation of the findings presented in this report.

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<sup>1</sup> Additional reporting is also received directly by the National Fraud Intelligence Bureau (NFIB) from trade bodies.

# Smaller businesses

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Small and medium-sized businesses (ie, those employing fewer than 250 people) are crucial to the success of the UK economy. They number some 4.8m, account for 99.9% of all enterprises, have a combined turnover of £1,528.7bn, and employ an estimated 14.1m people.

## Types of fraud and value of loss

The fraud losses of smaller businesses are conservatively estimated by the National Fraud Authority (NFA) at £18.9bn, equivalent to 1.4% of combined turnover.

In 2011/12 Action Fraud received a total of 2,258 fraud reports from businesses (including smaller ones) and other organisations. Their combined value of £22.3m represents an average loss of £9,876.

The most commonly reported fraud categories were:

- consumer non-investment fraud other than online shopping/auction, consumer phone and door-to-door sales/bogus tradespeople frauds
- online shopping and auction frauds
- advance fee fraud other than '419'
- corporate employee fraud
- counterfeit cashiers cheques and bankers drafts.

The top 15 categories (out of a possible 39) accounted for 96% of reports and 94% of losses (see table 1).

Four of the five fraud types which resulted in the biggest average financial loss per organisation were all investment frauds of one kind or another:

- share sales or boiler room fraud (£50,000)
- pyramid or Ponzi scheme fraud (£50,000)
- prime bank guarantee fraud (£52,485)
- other kinds of financial investment fraud (£533,519)
- non-mortgage credit application fraud (£51,436).

Certain fraud types are recorded by Action Fraud with no monetary loss attributed to them, suggesting the data is incomplete. Some losses can be difficult to quantify at the time of reporting because they will become apparent only once the case is concluded. Examples of this are (see table 1): corporate employee fraud, business trading fraud, fraudulent applications for grants from charities, and corporate procurement fraud. Others are: property rental fraud, inheritance fraud, fraud recovery<sup>2</sup>, lottery scams and mortgage-related fraud.

Research in 2010 by the Federation of Small Businesses (FSB) found that just over one in five of its members (21%) had experienced fraud in the last 12 months, most commonly plastic card fraud, customer or client fraud, employee fraud, mass-marketing fraud and supplier or contractor fraud.

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2 Fraudsters posing as recovery agents offer existing fraud victims help in recovering their losses in exchange for a fee.

**Table 1: Top 15 fraud types reported by organisations to Action Fraud by total volume for 2011/12<sup>3</sup>**

Fraud type	Total volume	Total loss
1. Consumer non-investment fraud other than online shopping/auction, consumer phone and door-to-door sales/bogus tradespeople frauds	623	£2,931,048
2. Online shopping and auction frauds	607	£1,688,753
3. Advance fee fraud other than '419' and lender loan frauds	289	£268,597
4. Corporate employee fraud	152	£0
5. Counterfeit cashiers cheques and bankers drafts	144	£55,508
6. Cheque, plastic card and online bank account frauds, but not PSP (payment service provider) fraud	102	£2,411,930
7. Business trading fraud <sup>4</sup>	64	£0
8. Door-to-door sales and bogus tradespeople	43	£1,464,241
9. Mandate fraud <sup>5</sup>	37	£346,340
10. Fraudulent applications for grants from charities	24	£0
11. Financial investment fraud other than share sales/boiler room, pyramid/Ponzi, and prime bank guarantee frauds	21	£11,203,904
12. Corporate procurement fraud	20	£0
13. Hacking – PBX / dial through <sup>6</sup>	18	£670,922
14. Lender loan fraud <sup>7</sup>	15	£28,314
15. Insurance broker fraud	12	£1,518
<b>Total for top 15 categories</b>	<b>2,171</b>	<b>£21,071,075</b>
<b>Total for all fraud categories</b>	<b>2,258</b>	<b>£22,341,055</b>

## Employee fraud

Employee fraud (also called staff fraud or internal fraud) poses a significant risk to all businesses. It has been estimated that the typical organisation loses 5% of revenue to employee fraud each year, smaller businesses being the most vulnerable.

Evidence suggests that employee fraud is severely under-reported to law enforcement agencies for several reasons. Many victims believe the police are either 'not interested' in these cases or do not have the resources to tackle them. Others fear the reputational damage of going public. Smaller businesses in particular find it difficult to accept that a trusted member of staff could do this to them. Instead of facing prosecution, many staff who commit fraud are simply dismissed or resign.

Research in 2010 by the FSB found that 16% of smaller businesses had experienced employee fraud or theft in the past year with only a small proportion reporting it to the police or other organisation. Trends in other sectors suggest that this figure is likely to have increased in the current economic climate. More recent data from the CIFAS Staff Fraud Database (which allows participating organisations, mostly from the financial services sector, to share confirmed cases) shows reported cases of employee fraud increasing by 14.5% in 2011 (to a total of 378), but only a quarter reported to law enforcement agencies. The biggest threat in this category came from staff seeking advantages by theft or deception, followed by employment application fraud.

*It has been estimated that the typical organisation loses 5% of revenue to employee fraud each year.*

<sup>3</sup> Based on Home Office Counting Rules for fraud.

<sup>4</sup> Includes false accounting and fraudulent trading.

<sup>5</sup> Fraudsters obtain details of direct debits, standing orders or account transfer details, amend them, and then transfer money to their own accounts.

<sup>6</sup> Fraudsters gain unlawful access to a corporate switchboard and use the system to divert calls to premium rate or overseas numbers which they control.

<sup>7</sup> The victim is offered a loan for a fee. The fee is paid but no loan is ever forthcoming.

These figures suggest that the 152 cases of employee fraud reported to Action Fraud in 2011/12 (see table 1) represent a very small proportion of the total.

## Fraud awareness and risk

Recent research by the NFA and the Department for Business Innovation and Skills placed small and medium-sized businesses into six categories according to awareness of fraud, perceived risk of falling victim, and actual risk. The data is summarised in table 2, below.

In general, fraud risk increases with size. Larger businesses have more employees, are more likely to trade online, and have higher turnover; all factors which place them at greater risk than, say, a micro business with no online presence.

Smaller businesses in segments A, B and C are mostly sole traders and micro businesses doing no trade online. Segment D usually contains well-established, medium-sized firms with high turnovers and online businesses. Segment E firms are small and medium-sized businesses with high turnovers who also trade online. While segment F businesses tend to be younger and are the most likely of all to trade online.

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*In general, fraud risk increases with size.*

**Table 2: Segmentation of the smaller business population by awareness and risk of fraud**

SME segment	% of SMEs	% experienced fraud in last 12 months	Awareness of fraud	Perceived risk	Actual risk	Trusted individuals and organisations
A	40	19	High	Low	At risk	Colleagues, business contacts and peers, accountants
B	20	26	Low	High	At risk	Police, accountants
C	21	18	Low	Low	At risk	Colleagues, business contacts and peers, friends and family, accountants
D	3	30	Mid	Low	Extreme	Colleagues, business contacts and peers, lawyers/solicitors, IT providers
E	8	37	High	High	High	Colleagues, business contacts and peers, friends and family, police
F	8	42	Low	High	Extreme	Colleagues, business contacts and peers, lawyers/solicitors, accountants

Interestingly, the people and organisations in whom smaller businesses are happy to place their trust vary from category to category, and only segments B and E include the police. This finding underscores the need for communications to be tailored to specific audiences, and so has important implications for providing information to smaller businesses in future.

## Individuals

The population of England and Wales is estimated to be 56.2m. Total fraud losses to individuals (including estimates for undetected fraud) are thought to be £6.1bn.

### Types of fraud and value of loss

In 2011/12, Action Fraud received 46,267 reports of fraud against individuals. Together they valued £223.1m, or an average loss of £4,821<sup>8</sup>.

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<sup>8</sup> The figure is believed to be high because of the inflating effect of share sales and boiler room fraud.

The most commonly reported categories were:

- online shopping and auction frauds
- advance fee fraud other than '419' and lender loan frauds
- computer software service fraud
- lender loan fraud

The top 15 categories of reported fraud (out of a possible 39) accounted for 93% of reports and 84% of losses (see table 3).

The types of fraud which resulted in the biggest average loss per person were:

- mandate fraud<sup>9</sup> (£189,783)
- mortgage-related fraud (£155,364)
- financial investment fraud other than share sales/boiler room, pyramid/Ponzi, and prime bank guarantee frauds (£59,903)
- pyramid or Ponzi schemes (£47,897)
- share sales or boiler room fraud (£30,370).

**Table 3: Top 15 fraud types reported by individuals to Action Fraud by total volume for 2011/12**

Fraud type	Total volume	Total loss
1. Online shopping and auction frauds	14,259	£9,767,531
2. Advance fee fraud other than '419', lender loan, dating scam, lottery scam, rental and counterfeit cashiers cheque frauds	8,727	£42,646,273
3. Computer software service fraud	5,937	£425,756
4. Lender loan fraud <sup>10</sup>	4,594	£2,312,103
5. Consumer non-investment fraud other than online shopping/auction, consumer phone and door-to-door sales/bogus tradespeople frauds	2,139	£7,985,822
6. Share sales or boiler room fraud	1,343	£40,786,993
7. Financial investment fraud other than share sales/boiler room, pyramid/Ponzi and prime bank guarantee frauds	1,065	£63,796,446
8. Cheque, plastic card and online bank account frauds, not PSP (payment service provider) fraud	924	£2,592,248
9. Lottery scams	868	£2,486,441
10. Dating scams <sup>11</sup>	759	£9,888,644
11. Counterfeit cashiers cheques and bankers drafts	706	£84,792
12. Rental fraud	540	£1,026,816
13. Ticket fraud	477	£215,054
14. Door-to-door sales and bogus tradespeople	470	£2,238,172
15. '419' advance fee fraud	428	£1,536,723
<b>Total for top 15 categories</b>	<b>43,236</b>	<b>£187,789,814</b>
<b>Total for all fraud categories</b>	<b>46,267</b>	<b>£223,074,231</b>

9 Fraudsters obtain details of direct debits, standing orders or account transfers and amend them to transfer monies to accounts they control.

10 The victim is contacted and told that they can have a loan for a fee. The fee is paid and no loan is forthcoming.

11 Victim is befriended online and eventually persuaded by a variety of emotive pretexts to provide financial help to their new 'love'.

## Fraud awareness and risk

According to a recent segmentation project by the NFA and Experian, people can be placed into seven distinct groups according to their awareness and experience of fraud, and their wider risk-related attitudes and behaviour. The findings are summarised in table 4.

Overall, those at greatest risk of becoming fraud victims were 'risk takers' who were also either 'naive' or who showed 'poor behaviours'. Younger people tend to fall into one of these two high-risk groups. Older females (56+ years) with low or very low incomes are the least susceptible to fraud.

*Overall, those at greatest risk of becoming fraud victims were 'risk takers' who were also either 'naive' or who showed 'poor behaviours'.*

**Table 4: Segmentation of the general public by awareness and risk of fraud<sup>12</sup>**

Population segment	Key characteristics	% UK adults	Total fraud loss (£bn)	Attitudes*	Risk avoidance behaviours**	Overall risk susceptibility***
Risk avoiders: lack awareness	Moderate to wealthy females, aged 36–55 years	16	4.12	High	Medium	Medium
Risk avoiders: exemplary behaviours	Low income, older females aged 56 years+	19	0.36	Medium	Low	Low
Risk avoiders: vulnerable to offers	Very low income, pensionable age females, aged 66+ years	4	0.32	Medium	Low	Low
Risk avoiders: still a victim	Less affluent, older men, aged 56+ years	10	0.22	Low	Medium	Medium
Risk takers: seek financial gain	Affluent, opportunity-seeking, professional males, aged 36–55 years	21	3.35	Medium	Medium	Medium
Risk takers: demonstrate naivety	Less affluent, younger females, lacking knowledge, aged 26–35 years	10	0.84	High	High	High
Risk takers: sure of themselves	Over-confident men in denial, aged 26–35 years	10	3.36	Low	Medium	Medium
Risk takers: poor behaviours	Young males and females, complacent and careless, aged 18–25 years	14	0.54	Medium	High	High

\*Low risk = cautious; high risk = careless

\*\*Low risk = precautionary; high risk = careless

\*\*\*Low risk = low susceptibility; high risk = high susceptibility

<sup>12</sup> The categorisations low, medium and high have been assigned by the FAP based upon the pictorial data presented on the NFA/Experian dashboards.

Individual victims are most likely to report their fraud to the police, bank/building society, Citizens Advice Bureau, and/or Trading Standards – but not Action Fraud. Interestingly, one-fifth of the ‘risk-takers: sure of themselves’ category said that they would do nothing if they became a victim of fraud.

People under 36 years of age prefer to receive information by email, social networks or mobile/SMS. Conversely, older people prefer face-to-face, telephone or newspaper contact (see table 6).

**Table 6: Communication preferences by population segment**

Population segment	Communication preferences
Risk avoiders: lack awareness	Direct mail, newspapers, face-to-face, telephone
Risk avoiders: exemplary behaviours	Face-to-face, post, telephone, newspapers
Risk avoiders: vulnerable to offers	Face-to-face, post, telephone, newspapers
Risk avoiders: still a victim	Television, radio, newspapers, face-to-face
Risk takers: seek financial gain	Web, email, newspapers
Risk takers: demonstrate naivety	Television, email, social networks, mobile/SMS
Risk takers: sure of themselves	Web, email, social networks, mobile/SMS
Risk takers: poor behaviours	Web, email, social networks, mobile/SMS

## How accurate are the figures for reported fraud?

A significant proportion of fraud is not reported to law enforcement. For all businesses (ie, not just small and medium-sized) this proportion could be as high as 98.5%, and a similar situation is likely to exist among individuals.

The reasons for non-reporting by both groups are varied but well-documented:

- lack of knowledge about how and where to report fraud;
- fear of not being taken seriously by the police, or a belief that the police won't act;
- damage to reputation;
- little chance of getting money back;
- embarrassment and shame at becoming a victim in the first place; or
- the sum of money involved is small.

These factors can be compounded by the experiences of anyone who has reported a crime only to find themselves passed from one organisation to another on what some commentators have described as a ‘reporting merry-go-round’. The experience can be particularly complicated and confusing for small businesses.

The problem of under-reporting is also evident in the official data published by Action Fraud. The £22.3m of losses to all organisations (2,258 frauds) recorded in 2011/12 is a tiny fraction of the £18.9bn estimated by the NFA as the total cost of fraud just to smaller businesses. Since only 5% of fraud reports received by Action Fraud are made by organisations, the smaller body of data available means that these statistics are likely to be less reliable, providing a more incomplete picture, than those collected for individuals. Even so, the £223.1m of individual losses (46,267 frauds) recorded by Action Fraud represent less than 5% of the NFA's £6.1bn estimate for the total lost.

*A significant proportion of fraud is not reported to law enforcement.*

Generally, awareness and use of the Action Fraud reporting service is still relatively low, particularly among organisations and smaller businesses. Recent segmentation research found that relatively few individuals (6%–8%) would think to report to Action Fraud – the exception being 18–25 year olds (14%) – preferring instead to contact their bank/building society or the police. But it is also worth noting the anecdotal evidence which points to fraud reporting patterns being heavily influenced by media awareness campaigns, suggesting that future efforts are likely to have a positive impact on reporting levels.

It is clear that fraud against individuals and smaller businesses creates a complex web of events, actions and reactions that is difficult to cost and quantify. Action Fraud statistics provide a snapshot of those organisations and individuals who are prepared to report fraud. At present there are many more holes than threads in the fabric of available data, but this is due in large part to victims' inability or reluctance to report fraud, and there is good cause to believe that this will change in time. The NFA estimates that total fraud and internet crime reports will increase by approximately 20,000 per month once the roll-out to UK police forces is completed in mid-2013. The projected increase can be expected to quickly make a very significant difference to the quality of the picture we have of fraud and its impact, especially in the case of crimes against individuals. However, the challenge will be to match the increase in reporting volumes with improved analysis of the information collected to better understand the threat, and so tailor preventative and enforcement action.

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## The impact of fraud

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Fraud can have a financial, physical, emotional and/or psychological impact on victims. It can result in stress, feelings of distrust, anger and self-blame. Relationship and/or family problems seem inevitably to follow in its wake.

The level of harm a business can suffer as a result of fraud ranges from inconvenience and lost opportunities to severe reputational damage, job losses and, ultimately, complete collapse.

The overall harm done to the UK economy was spelled out by the FSB in June 2011, 'It is clear that fraud is one amongst a number of barriers to growth for businesses ... This is of real concern at a time when Government is looking towards the small business sector for growth and jobs and online trading could be a real growth area.'<sup>13</sup>

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## Acknowledgements

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<sup>13</sup> Federation of Small Businesses (2011) *FSB fraud and e-crime paper: current issues for small businesses*.



