

Fraud Definition and examples

Simple definition

By fraud we mean:

“Any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss”

In the UK, the term fraud is used to describe many acts such as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion.

Fraud and Corruption

Arguably, the terms “fraud” and “corruption” should be considered as one – fraud and corruption.

It provides the opportunity to adopt a wide and simple definition – fundamentally that fraud and corruption is an unethical act, by anyone, diminishing the value of the organisation.

This does not limit “fraud” or “corruption” to specific offences under which they may be prosecuted such as the Fraud Act 2006, the Prevention of Corruption Act 1906 or the Bribery Act 2010. This is because statutes do not reflect the level of fraud and corruption as prosecutions may not be made at all and are also made under other legislation such as the Proceeds of Crime Act 2002 or the common law offences of misconduct in public office and perverting the course of justice.

As well as clear criminal Fraud Act “fraud” (intending dishonesty, gain or loss), criminal Bribery Act “bribery” (bribing, being bribed, failure to prevent), “fraud and corruption” also includes both fraud and bribery civil offences and damaging misbehaviour and unethical behaviour. Potential examples include nepotism, conflict of interest, collusion, cartels, gifts, hospitality, disproportionate lobbying, exploitation of public office, abuse of authority, disclosure of information and vote rigging.

Example types of fraud

Fraud risks

Fraud risks are many and varied. Examples include:

Benefit fraud -

The Department for Work and Pensions (DWP) provides estimates of fraud and error for benefits administered by DWP and Local Authorities. These estimates are published twice a year and are overseen and subject to rules governed by National Statistics protocols and publications.

The DWP have one of the most sophisticated methodologies in the public sector for measuring the level of fraud and error. Over 30 per cent of all benefit expenditure is measured on a continuous basis, including income support, jobseekers allowance, pension credit, incapacity benefit and housing benefit.

Bid rigging - Bid rigging occurs when bidders agree among themselves to eliminate competition in the procurement process - thereby denying a fair price.

Simple ways, for example:

- "Cover pricing" - Submit a non-competitive bid that is too high to be accepted
- A competitor agrees not to bid or to withdraw a bid from consideration.
- Submit bids only in certain geographic areas or only to certain public organizations.

Although the schemes used by firms to rig bids vary, they all have one thing in common – the bidders agree to eliminate competition so that prices are higher.

Blue badge scheme misuse - The blue badge scheme is an important service for people with severe mobility problems that enables badge holders to park close to where they need to go. The scheme is administered by local authorities who deal with applications and issue badges. In total, there are around 2.5 million blue badges in the UK.

Misuse of the blue badge scheme affects local authority income from on-street parking and income from the London Congestion Charge. This type of fraud undermines the benefits of the scheme, impacts upon local traffic management and creates hostility amongst other badge holders and members of the public. Misuse of a blue badge can occur from the use of a badge that is no longer valid, misuse of a valid badge by a non-badge holder or use of a lost, stolen, copied or forged badge. It is an offence for people other than the badge holder to take advantage of the parking concessions provided under the scheme.

Charity fraud - Charity fraud can be broadly defined as any fraud perpetrated within or against a charitable organisation. This covers both internal and external incidences of fraud including fraud perpetrated by fake or non-existent charities. Many of the internal fraud risks against charities are similar to those risks identified for any public or private sector organisation. There are also a number of fraud types specific to the charity sector including the impersonation of street collectors, falsification of grant applications, skimming of collection boxes, theft of inventory / donated items and the abuse of charity status to avoid paying tax.

Cheque fraud - According to Financial Fraud Action UK, cheque fraud cost the UK banking industry £30 million in 2009, a reduction of 29 per cent (or £12 million) from figures reported for 2008 following year-on-year increases in 2007 and 2008.

Forged cheques (a genuine cheque that has been stolen and used by a fraudster with a forged signature) still accounts for the largest area of loss - £16m.

There have also been reductions in counterfeit cheques (manufactured cheques to look like genuine cheques) and fraudulently altered cheques (genuine cheques where alterations have been made to the value before being paid in) resulting in losses of £5 million and £9 million respectively during 2009.

Council tax fraud - Local authorities collect around £26 billion a year in council tax in England alone. Council tax provides local authorities with around a quarter of funding for council services such as schools, libraries and social care. There are a number of discounts or exemptions that can be claimed to reduce the amount of council tax payable for each household.

The most frequently claimed discounts are single person discount, second home ownership and non-occupancy. The most common exemptions claimed are for student occupancy, repossessed properties and properties deemed unfit for habitation.

Grant fraud (public sector) - A grant is an award of financial assistance paid to eligible recipients for a specified purpose. There are different types of public sector grants paid out to individuals, businesses, charities and not for profit organisations. Grant-in-aid is also paid out by the public sector to non-departmental public bodies (NDPB), executive agencies and public corporations.

Fraud risks within grant spending depend on various factors such as the type of grant recipient, the purpose of the grant, the nature of the scheme and the scale of the award. For example, funds paid to NDPBs for major capital projects are likely to be at much lower risk from fraud than grants paid to individuals or less well established groups. Grants account for around 40 per cent of government spending; this includes social benefit expenditure.

Housing tenancy fraud - Housing tenancy fraud is the use of social housing by someone who is not entitled to occupy that home. It includes people who submit false housing applications, unlawful sub-letting and tenancy succession fraud.

Identity fraud - Identity fraud occurs when an individual's personal information is used by someone else without their knowledge to obtain credit, goods or other services fraudulently. Measuring the financial impact from identity fraud is challenging, partly because there is no standard definition of identity fraud but also due to the fact that identity fraud is an enabler rather than a specific fraud type.

Insurance fraud - The UK insurance industry is the largest in Europe and the third largest in the world accounting for 11 per cent of total worldwide premium income.

The insurance market is divided into two categories: general insurance (i.e. motor, property, accident and health) and long-term insurance (i.e. life and pensions). Long-term insurance accounts for the majority of the insurance market, with total net premiums of £131 billion, compared to £34 billion for the general insurance market.

Insurance fraud is where a claimant knowingly submits false, multiple or exaggerated insurance claims in order to receive insurance payouts to which they are not entitled. It may also involve the deliberate destruction of items or property in order to claim on insurance. Insurance fraud is often opportunistic in its nature. However, in recent years there has been a significant increase in organised insurance fraud, which is often more complex and targeted at specific types of insurance.

Mass marketing fraud - The term 'mass marketing fraud' is wide ranging and captures a number of different types of fraud.

Whether committed via the internet, through telemarketing, mail or at mass meetings, it has two elements in common. Firstly, the criminals who carry out mass marketing fraud aim to defraud multiple individuals to maximise their criminal revenues. Secondly, the schemes invariably depend on persuading victims to transfer monies to the criminals in advance, and on the basis that promised goods, services or benefits will follow. Needless to say the promised goods, services or benefits never existed and will never be delivered.

Many fraudsters use generic, well-known fraud templates, simply recycling and updating schemes that have proven successful in the past. The most effective and lucrative scheme variations are often widely replicated, as criminals aim to capitalise on victims' delayed recognition of fraudulent solicitations. Because of this, there are many different types of mass marketing fraud.

Examples of mass marketing fraud:

- '419' advanced fee fraud (so called after the Nigerian criminal code pertaining to fraud). Involves the enticement of victims with promises of immediate and enormous wealth. One of the most common 419 frauds relates to funds transfer schemes, where the fraudster claims to need the victim's financial assistance to transfer or embezzle money from a foreign country or company, in exchange for a portion of the stolen funds.
- Romance fraud (also known as 'dating fraud'). Targets users of internet dating and social networking sites by feigning romantic intentions towards a victim to secure their trust and affection. The fraudster uses the gained affection and trust to solicit money from the victim, either obtaining money directly from them (for example, asking to send money to pay for travel documents, airline tickets, medication and hospital bills etc).
- Recovery fraud. Targets former victims of mass marketing frauds. The victim is contacted by the fraudster who poses as a legitimate organisation, claiming that they can apprehend the offender and recover any monies lost by the victim, in exchange for a small fee. If the victim responds, the fraudster will ask for various fees, such as release and administration fees. The fraudsters may also ask the victim to provide details of their bank account so they can pay the money into it. They will then use this information to empty the account.
- Foreign lottery and sweepstake fraud. These are schemes which target individuals with false promises of money, case prizes or valuable items, provided that the victims first purchase certain products or make advance payments of fictitious fees and taxes.
- Premium rate telephone fraud. The victim receives a letter, mobile text message or automated telephone message informing them that they have won a major prize; urging them to telephone a premium rate number to find out what they can claim. Calls to the number are charged at a premium rate and victims are encouraged to stay on the line for

several minutes. When the prize is claimed, it turns out to not exist or to be a cheap 'give away' item. A recent variation of this fraud involves calling cards being left saying that a delivery or a parcel was attempted, asking the victim to call a number in order to re-arrange delivery of the parcel. In reality, the victim is calling a premium rate number in order to claim a parcel which turns out to not exist.

- High risk investment fraud. Victims are contacted and offered the opportunity to invest money into things like shares, real estate, fine wine, gemstones, coins, ventures, art or other items of 'rare' high value with the promise that these items will significantly increase in value. What is offered either does not exist or is significantly over-priced, high risk and difficult to sell on.

- Career opportunity. This involves victims being offered the opportunity to enhance their career by signing up with an 'agency' or 'company' (for example, a publishing or modelling agency). The victim is duped into paying a fee or fees up front, after which very little, if any, assistance is given by the 'agency' or 'company'.

- Emergency assistance schemes. Where fraudsters (sometimes posing as a family member or close friend) contacts the victim with requests for urgent financial assistance for example by claiming that a family member was arrested overseas and requires bail money or that a friend has had an accident on holiday and needs funds for emergency medical expenses.

- Pyramid schemes (sometimes known as chain letter scams). Advertised through mailings, newspapers, the internet or via word of mouth. The victim is asked to pay to become a member of a scheme which promises large commission earnings if they recruit others to the scheme. If enough new members join, the pyramid grows, possibly enabling some members to make money. Inevitably, however, the money runs out and those at the bottom of the pyramid scheme lose their investment.

- Psychic and clairvoyant schemes. Victims are contacted by a so called 'psychic' or 'clairvoyant' with offers to make predictions of events that will change the victims' life, provided that the victims pay in advance.

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

National Savings and Investments fraud - National Savings and Investments (NS&I) is an Executive Agency of the Chancellor of the Exchequer. They are one of the largest savings organisations in the UK with almost 27 million customers and over £98 billion invested, accounting for approximately nine per cent of the UK savings market. NS&I attracts funds from individual UK savers for the purposes of funding the Government's public sector borrowing requirement. Because NS&I are underwritten by HM Treasury, NS&I fraud loss is considered to be a loss to the public sector.

The majority of these fraud losses were the result of account takeover i.e. someone pretending to be the account owner in order to withdraw or transfer funds.

Online banking fraud - According to Financial Fraud Action UK, in 2009, online banking fraud losses increased from £53 million in 2008 to £60 million, an increase of 14 per cent. This increase is largely due to criminals using more sophisticated methods to target online banking customers through malware, which targets vulnerabilities in customers' PCs, rather than the banks' own systems which are more difficult to attack. There were also more than 51,000 phishing incidents recorded during 2009 - a 16 per cent increase on the amount seen in 2008. More than half of all internet users bank online, with more than 24 million adults accessing at least one online bank account.

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

Organised crime (fraud) - Fraud is a significant element of the overall organised crime threat, either perpetrated by organised crime groups (OCGs) as a primary activity, or as an enabler/funding device for other serious crimes.

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

Payroll and recruitment fraud - Payroll fraud can occur when unauthorised changes are made to payroll systems, such as the creation of false payroll records or unauthorised amendments such as changes to salary payments or allowances. Recruitment fraud occurs when false information is provided in order to gain employment, for example by lying about employment history and qualifications or providing false identification documents such as false documentation demonstrating the right to work in the UK.

Pension fraud - Pension fraud can occur when relatives fail to notify the pension provider about the death of a relative / friend and continue to cash pension payments. It can also occur when pensioners fail to notify the pension provider they have had a change in circumstances which would affect the value of their pension, for example returning to work once retired or moving abroad.

Plastic card fraud - Over 11 billion transactions were made on UK cards in 2009, with spending on UK cards amounting to £396 billion.

Cardholder not present fraud is the theft of genuine card details that are then used to make a purchase over the internet, by phone, or by mail order.

Counterfeit card fraud is a fake card using compromised details from the magnetic stripe of a genuine card.

Others are lost and stolen cards, card ID theft and mail non-receipt

Procurement fraud - Procurement fraud is any fraud relating to the purchasing of goods and services. It covers the entire procure-to-pay lifecycle, including fraud in the tender / bidder selection and contract award stages (for example, illicit cartel activity or bribery of an official to influence the tendering process); as well as fraud occurring during the life of the contract (for example, false, duplicate or double invoicing). Procurement fraud can occur with or without the collusion of an employee within an organisation (sometimes referred to as an 'insider').

Rental fraud – Rental fraud is a type of advanced fee fraud where would-be tenants are deceived into paying an upfront fee to rent a property which turns out to not exist or already be rented out. Reports made to Action Fraud have highlighted the prevalence of rental scams in the last 12 months. In October 2010, Shelter (a housing and homelessness charity) carried out an online survey looking at the number of people who have been the victim of a scam involving a private tenancy or landlord. The YouGov research estimated that 946,000 people have been the victim of rental scams in the last three years, equating to around 315,000 victims each year.

Staged/induced motor vehicle accident fraud (organised) – Staged motor vehicle accidents are an example of organised insurance fraud. They occur when two or more fraudsters deliberately crash their vehicles into each other with the intention of making fraudulent insurance claims for replacement vehicles and / or injury compensation. Induced motor vehicle accident fraud is where the fraudster deliberately causes an accident by inducing an innocent motorist to crash into their vehicle.

Student finance fraud – Financial support is available from the Government to support eligible students studying on an approved Higher Education course. The Student Loans Company (SLC) is responsible for administering government-funded loans and grants to students throughout the UK. If the student is studying on a qualifying NHS funded course, student funding is administered by the NHS Business Services Authority (NHS BSA). Student finance related fraud can occur when applicants provide false or misleading information when applying for student funding, or deliberately fail to notify the relevant awarding authority of changes in their circumstances. For example, full household income may not be disclosed in order to gain more support, or a student may fail to notify the

relevant awarding authority of their withdrawal from a course, which results in student finance continuing incorrectly.

Tax credits fraud – False information, not notifying changes for Child Tax Credit and Working Tax Credit - introduced in 2003 to provide support to parents returning to work, reduce child poverty and increase financial support for all families. Tax Credits are a flexible system of financial support designed to deliver support when a family needs it, tailored to their specific circumstances. HM Revenue and Customs (HMRC) administers Tax Credits.

Tax fraud - 'Evasion' arises where individual or corporate customers deliberately omit, conceal or misrepresent information in order to reduce their tax liabilities. Research has shown that a minority are willing to break the law to avoid paying their fair share of tax. This could be an individual concealing sources of income or a company suppressing its turnover.

Individuals in the hidden economy behave in a range of different ways, from employees who do not report other sources of income (known as 'moonlighters') to those who fail to declare any taxable activity or income (known as 'ghosts').

Criminal attacks on the tax system involve co-ordinated and systematic attacks by organised criminal gangs. Examples include Missing Trader Intra-Community (MTIC) fraud and the use of false identities to obtain tax repayments.

Telecommunications fraud – Telecommunications fraud involves the theft of services or deliberate abuse of voice and data networks. Some examples of types of telecommunications fraud are subscription fraud (the use of a false identity to acquire telecommunication services and or equipment), international revenue share fraud (the manipulation of international premium rate telecommunication services for financial gain) and box breaking (obtaining and selling on subsidised telecommunication equipment such as mobile phones).

Telephone banking fraud - Customers being duped into disclosing security details through cold calling or fake emails, which criminals then use to commit fraud.

Television licence fee evasion - There are around 25 million licences currently in force in the UK, with collected television licence fee revenues of £3.6 billion during 2009-10. The BBC calculates fraud losses resulting from licence fee evasion by comparing theoretical licence fee income with actual amount collected. During 2009-10, the BBC estimates that £196 million was lost as a result of licence fee evasion.

Vehicle excise fraud - Not having a tax disc. The Department for Transport (DfT) produces annual estimates relating to vehicle excise duties, calculated by using extrapolations against the outcome of 1.5 million vehicle licence checks carried out throughout the UK. Latest figures published by the DfT have shown predicted losses of £46 million in England, Scotland and Wales for 2010-11.

Examples of recent frauds

August 2011 – bribery, misconduct in public office and perverting the course of justice

Court clerk first to be prosecuted under Bribery Act

A London magistrates' court employee has become the first person to be prosecuted under the new Bribery Act.

Munir Yakub Patel, an administrative clerk at Redbridge Magistrates' Court in Ilford, London, faces a charge under Section 2 of the 2010 Act for requesting and receiving a bribe intending to improperly perform his functions.