



National Fraud
Authority

Annual fraud indicator

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Foreword

Dr. Bernard Herdan, NFA Chief Executive

This year's Annual Fraud Indicator has put the loss to the UK economy from fraud at £38.4 billion. This serves as a stark reminder of how much money fraudsters take from us each year, which affects everyone in the UK directly or indirectly. Broken down, this figure represents fraud costing each adult member of the population an average of £765 per year. In this time of austerity, it is money we can ill afford to lose.



Dr. Bernard Herdan
Chief Executive

The effects of fraud strike at every level of society. Fraudsters steal where there is an opportunity, whether it is from individuals who think they are shopping online from reputable secure companies to fraudulent claims against the Government revenue, tax and benefits systems.

Some people will have had money stolen directly whereas the majority will be suffering from higher insurance premiums and prices in shops as businesses pass on the cost of fraud to us the customer, and higher taxes due to the public sector losses. The consequences to a person, business or charity who has had money taken from them by fraudsters can be devastating and, in some circumstances, life changing. The increase in the overall fraud loss figure doesn't come as a surprise. As indicated in last year's Annual Fraud Indicator, incomplete information led to underestimates in some areas. Specifically, this year we were able to measure the level of fraud more precisely within some areas of the public sector and to provide a realistic estimate of losses against small and medium sized businesses and charities.

Improved figures have already enabled a level of targeting that was previously not possible. Last year's Annual Fraud Indicator has helped the Government prioritise a programme of work aiming to significantly reduce public sector fraud. This year's will have a significant role in helping to determine areas of focus as we develop new interventions and build the latest National Fraud Strategy for the next four years.

As with the first Annual Fraud Indicator, measuring the impact of fraud on its victims cannot be done without the assistance of our counter fraud partners across public and private sectors. I would like to thank them for their ongoing support and dedication in quantifying this crime, which enables us to continue to produce the most reliable and comprehensive UK fraud loss estimate to date.

A handwritten signature in purple ink, appearing to read 'B. Herdan', with a horizontal line underneath.

Dr Bernard Herdan CB
Chief Executive

Summary

Summary

In January 2010 the National Fraud Authority (NFA) published the first Annual Fraud Indicator (AFI), estimating fraud losses in the UK to be at least £30.5 billion a year. At the time of publication it was acknowledged that this figure was likely to underestimate the real cost of fraud as it excluded significant areas of fraud loss including the charity sector, small to medium sized businesses and fraud across key areas of public sector expenditure such as payroll, grants and procurement.

Work has continued this year to develop a more robust and comprehensive picture of fraud loss in the UK. Targeted measurement exercises have been carried out and top-down estimates have been calculated in key areas where fraud loss figures are poor or non-existent. As a result of this fraud measurement work and updated fraud loss figures provided by our stakeholders, the NFA now estimates that fraud costs the UK around **£38.4 billion** a year. Figure 1 provides a breakdown of fraud loss by sector.

Key findings

Fraud against the public sector accounts for 55 per cent of all fraud loss, with estimated losses of £21.2 billion for the public sector. This figure is higher than the public sector fraud figure of £17.6 billion published in the AFI 2010 because new figures for procurement, grant and payroll fraud have been included. Whilst public sector fraud loss accounts for more than half of all fraud loss, it should be recognised that parts of the public sector have developed robust methodologies for measuring fraud and are more willing to publish this information in the public domain.

Tax fraud is the highest individual public sector fraud loss area with an estimated £15 billion lost each year. This figure captures criminal attacks (£5 billion), evasion (£7 billion) and losses resulting from the hidden economy (£3 billion). Benefit and tax credits fraud account for seven per cent of public sector fraud, which together are estimated at £1.5 billion a year. Other fraud losses across central government and local government (excluding tax fraud, tax credits fraud and benefit fraud) are estimated at £2.6 billion and £2.1 billion respectively.

Private sector fraud is estimated to cost the UK economy £12 billion a year, accounting for 31 per cent of total fraud loss. This figure now captures fraud against small to medium sized businesses which is estimated at £780 million a year. The financial services industry sees the highest private sector losses, estimated at £3.6 billion a year, followed by the retail, wholesale and distribution (£2.7 billion), travel, leisure and transportation (£1.9 billion) and manufacturing industries (£0.9 billion).

In the third sector, targeted measurement by the NFA of fraud against charities has revealed annual losses of around £1.3 billion. This updated fraud loss estimate now accounts for both detected and undetected fraud loss against charities.

Summary

Fraud losses suffered by individuals are estimated at £4 billion a year, of which the majority of fraud loss is the result of mass marketing fraud. Rental and online ticket fraud accounted for losses of £314 million and £168 million.

For the first time, estimates relating to cross cutting fraud types have been included in the AFI. Organised crime is estimated to account for around a quarter of all fraud loss with approximately £8.9 billion being lost each year as a result of organised criminal activity. Identity fraud is estimated to cost the UK around £1.9 billion a year. These figures provide another perspective of fraud losses in the UK.

Whilst current fraud losses are now estimated to cost £38.4 billion a year, around £8 billion more than our previous estimate of fraud, this figure does not necessarily represent an actual increase in the cost of fraud to the UK. The higher estimate is mostly the result of new or improved fraud measurement, which capture all fraud losses not just reported and detected fraud. This is particularly the case with the inclusion of new top-down estimates of public sector fraud.

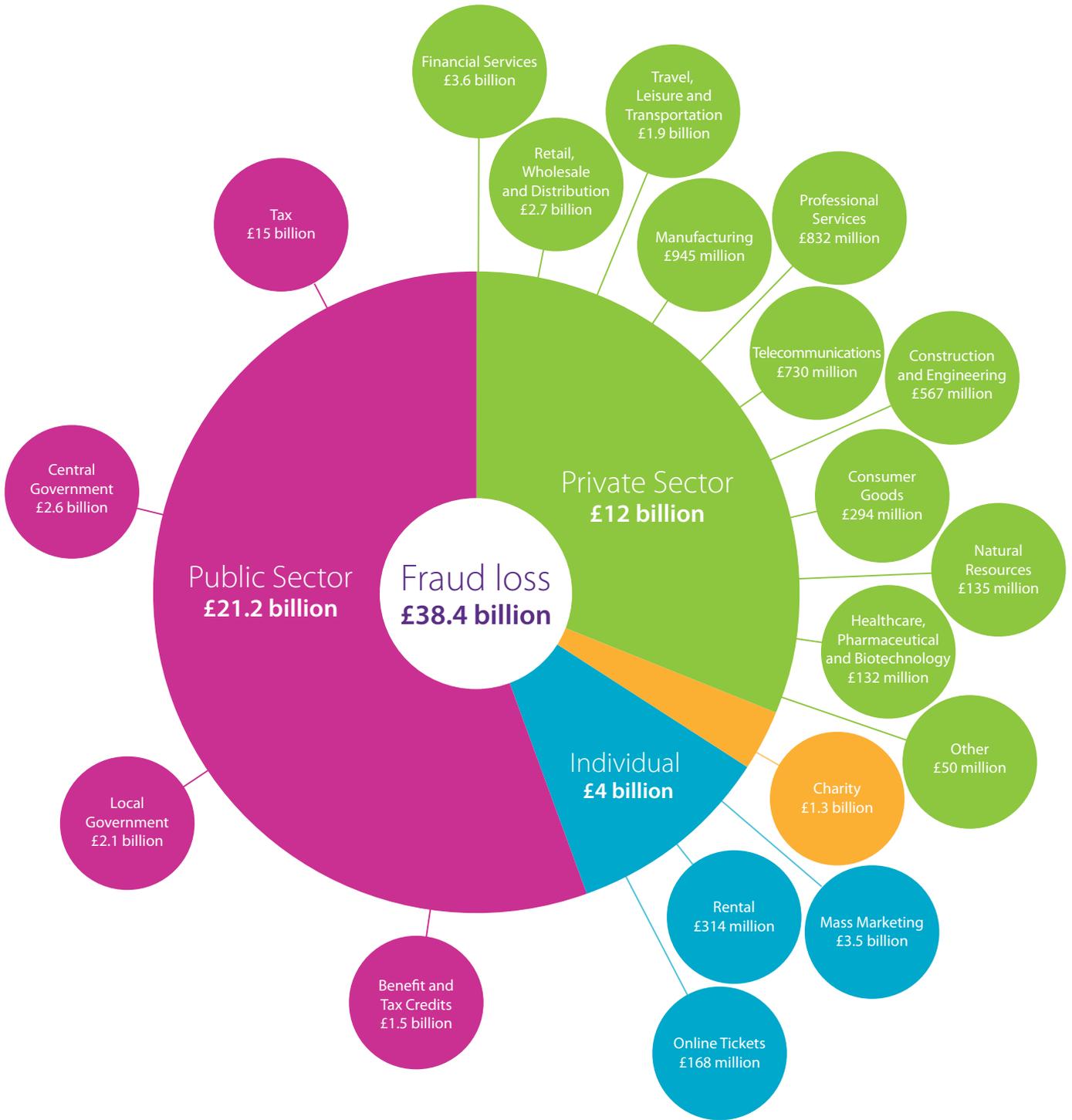
The quality and reliability of fraud loss estimates used in this measurement varies significantly and so these estimates provide only an indication of likely fraud loss. Caution must be taken when using and interpreting the figures provided, particularly when drawing comparisons between different figures. Further work is still needed to improve the robustness and granularity of some of the new fraud loss estimates provided in this publication.

Moving forward

This AFI continues to improve our knowledge about financial losses and clearly identifies those areas of fraud that cause most financial harm to the UK. This information will help identify priorities for the counter fraud community and will inform the planned development of a new National Fraud Strategy for the next four years. Whilst there has been significant progress this year in obtaining better and more comprehensive estimates of fraud across the UK there is still more work needed to develop enhanced fraud recording mechanisms and more sophisticated, robust methodologies for measuring undetected fraud. As improvements are made in the accuracy and comparability of this annual measure, it is possible that the headline fraud estimate will further increase.

Summary

Figure 1
Breakdown of fraud losses



Due to rounding, the components of this diagram may not sum to their respective totals.

Introduction

Introduction

Measuring the nature and scale of fraud is necessary for tackling fraud effectively. It promotes better understanding of those areas that cause most harm to the UK economy and is also needed to benchmark progress, track trends and highlight the success of counter fraud activities.

In January 2010 the NFA published its first fraud loss estimate of £30.5 billion, capturing loss across all sectors of the UK plus losses against individuals. The first AFI considerably improved existing knowledge about financial losses resulting from fraud by identifying those areas that are known to cause significant loss. Further work was needed in order to improve the coverage and accuracy of fraud loss estimates for inclusion in the AFI 2011.

A number of targeted measurement exercises have now been carried out by the NFA to supplement updated fraud loss figures provided by stakeholders for the AFI 2011. Targeted measurement has taken place across a number of fraud areas including charity, organised crime, blue badge scheme, identity, online tickets, rental and fraud against small to medium sized businesses. Supplementary estimates of public sector procurement, grant and payroll fraud have also been included in this AFI to help develop a more accurate public sector figure.

Where indicative estimates have been used for the AFI 2011, the NFA will continue to work towards the development of more accurate methodologies for measuring losses in these areas. New measures of fraud will also be developed to better quantify fraud losses in areas such as cyber and organised crime as well as the development of a new mass marketing fraud figure.

The new AFI has built upon the first annual fraud measurement and has made real progress in identifying the true cost of fraud. However this data cannot yet be used to identify changes in the level of fraud. One of the key priorities in moving measurement work forward will be the development of measures that can reliably monitor changes in the levels of fraud, with a view to expanding the AFI to capture a wider range of data. This will include better use of National Fraud Intelligence Bureau (NFIB) data and the continued collection of prevention, investigation, prosecution and asset recovery data collected via the NFA-chaired Counter Fraud Strategy Forum.

How has the fraud loss estimate been calculated?

The AFI 2011 is based on a combination of figures provided by stakeholders and fraud loss estimates produced by the NFA. References have been provided for data that is already publicly available. A full breakdown of the AFI 2011 estimate can be found on page 15. Fraud loss figures have been rounded for ease of reading. Unless stated otherwise, figures under £1 billion have been rounded to the nearest million and figures over £1 billion have been rounded to the nearest £100 million.

In quantifying fraud losses, a victim-centric approach has been used. This means that the fraud loss figures included in this measurement represent losses against public, private and third sector organisations and individuals. Due to the approach taken, fraud perpetrated from overseas against the UK will be captured within these estimates. For example figures relating to plastic card fraud and online banking will include attacks from criminals operating overseas.

Introduction

Fraud often goes undiscovered and therefore unreported. This means that reported fraud provides a poor reflection of actual loss. Where targeted measurement has taken place this year, the focus has been on quantifying 'undetected' fraud to enable the NFA to produce an estimate that is as close to the 'real' cost of this type of crime as possible. In some cases, figures included in the AFI 2010 have been replaced with new figures, derived using alternative methodologies.

The figures provided do not take into account the costs of preventing and responding to fraud, nor do they attempt to quantify the indirect financial costs of fraud, such as changes in behaviour resulting from the threat of fraud or the costs of implementing systems to prevent and detect fraud. If these additional costs were to be included in this measure, the real cost to the UK economy would be much higher.

The more robust NFA estimates provided in this publication are based on targeted measurement work carried out during 2010. However, there are other estimates based on less reliable survey data or expert opinions. For these estimates, caveats are provided to assist with interpreting the data, particularly with regard to the new top-down estimates of public sector procurement, grant and payroll fraud.

The majority of figures used in this calculation are based on data taken from 2009 or the 2009-10 financial year. The figures contained in this document should be taken to reflect the most current picture of annual fraud losses. As with last year's publication there are still inconsistencies in the years to which fraud loss figures apply.

Structure of the AFI

Key trends

Section three provides commentary on fraud trends and changes between the AFI 2010 and AFI 2011 as well as some commentary on UK fraud estimates published by others.

Fraud by sector

Section four provides a high level breakdown of fraud loss in the public, private and third sectors and against individuals.

Fraud glossary

For the first time, the AFI includes a fraud glossary so as to provide another perspective and an improved picture than that provided in the AFI 2010. This section provides more detail on the source of fraud loss figures plus further explanation on how these figures have been calculated.

Key trends

Key trends

Comparison with AFI 2010

As outlined earlier, the headline loss figure cannot be used as an indicator of whether fraud has increased. There are however, some areas of fraud where there have been changes since the publication of the AFI 2010.

Insurance fraud

The Association of British Insurers has reported an increase of 15 per cent in detected insurance fraud losses, from £730 million in 2008 to £840 million in 2009¹. The increase in the level of detected fraud will be in part due to an enhanced capability in detection of fraud by the insurance industry, as well as the probable increase in the volume of fraud that is detected. Since the AFI 2010, the Association of British Insurers has not re-measured the total detected and undetected insurance fraud, so it is not known whether there has been an overall increase in insurance fraud loss. The total figure published in the AFI 2010 of £2.1 billion has therefore remained the same.

Plastic card fraud

In 2009, Financial Fraud Action UK (FFA UK), the name under which the financial services industry co-ordinates its activity on fraud prevention, reported a decline of £170 million in plastic card fraud losses. This figure represents a decrease of 28 per cent compared to 2008 figures. There was a reduction across all types of plastic card fraud, including a reduction of 19 per cent in card not present fraud, the lowest recorded fraud loss since 2006. This reduction is in part the result of the introduction of chip and PIN, the increased use of sophisticated fraud screening detection tools and the continuing growth of cardholder authentication processes to tackle card not present fraud.

Online banking fraud

Data published by FFA UK has shown that online banking fraud increased by 14 per cent, from £53 million in 2008 to £60 million in 2009, representing an overall increase of £48 million since 2004, the first year in which online banking fraud losses were measured. This increase is largely due to criminals using more sophisticated methods to target online banking customers through malware, which targets vulnerabilities in customer's PCs, rather than the banks' own systems which are more difficult to attack. This increase has gone hand in hand with a rise in the number of people banking online. In 2009, more than half of all internet users banked online, with more than 24 million adults accessing at least one online bank account.

Cheque fraud

Cheque fraud decreased by £12 million between 2008 and 2009 and is now estimated to cost around £30 million a year (FFA UK). Although this is the lowest level of cheque fraud reported since 2002, there has been a significant decline in the use of business and personal cheques, with 3.5 million cheques issued each day in 2009 compared to 11 million in the peak year for cheque volumes in 1990.

Benefit fraud

Benefit fraud losses reported by the Department for Work and Pensions (DWP) have broadly remained the same between 2008-09 and 2009-10 at around £1 billion, despite an increase in benefit expenditure of £12 billion between these two years. At the time of publication, only interim benefit fraud figures were available as final figures for benefit fraud and error for 2009-10 had not yet been published by the DWP.

¹ Figures are rounded to the nearest £10 million.

Key trends

CIFAS

CIFAS recently reported that during 2010 there was an increase in the number of impersonations by 4.7 per cent, to over 89,000 cases. In total there were 102,672 confirmed cases of identity fraud, which include both cases of false identity and identity theft. During 2010, a CIFAS report on staff fraud reported an increase of 45 per cent from 2008 to 2009, with the number of cases of staff obtaining or disclosing personal data unlawfully more than doubling. Whilst the statistics only reflect cases that members have reported to CIFAS, the figures indicate that identity and insider fraud is on the increase.

Action Fraud

Action Fraud is the UK's national fraud reporting centre. It provides a central point of contact for information about fraud as well as providing a 24 hour fraud reporting service for victims of fraud. Between January 2010 and December 2010, there were around 10,000 reports made to Action Fraud, with combined reported losses of around £93 million.

In terms of the volume of crime reports, online shopping, auction and application fraud accounted for half of all victim reports to Action Fraud. However these types of fraud did not necessarily account for significant personal fraud losses. The highest losses reported were from victims of share sale and inheritance fraud, with total reported losses of £42 million. Other significant areas of fraud identified by Action Fraud data include romance, share sale, rental and advanced fee frauds.

Fraud by sector

Fraud by sector

Sector / total fraud loss	Area	Total fraud loss	Fraud type	Fraud loss
Public sector £21.2 billion	Tax	£15 billion	Tax fraud	£15 billion
			Vehicle excise fraud	£46 million
	Central government	£2.6 billion	Procurement fraud	£1.5 billion
			Grant fraud	£472 million
			Television licence fee evasion	£196 million
			Payroll and recruitment fraud	£177 million
			NHS patient charges fraud	£165 million
			Student finance fraud	£31 million
			Pension fraud*	£7 million
			National Savings and Investments fraud*	£0.39 million
	Local government	£2.1 billion	Housing tenancy fraud	£900 million
			Procurement fraud	£855 million
			Payroll and recruitment fraud	£152 million
			Council tax fraud	£90 million
			Blue Badge Scheme abuse	£46 million
			Grant fraud	£43 million
			Pension fraud*	£8 million
Benefit and Tax Credits	£1.5 billion	Benefit fraud	£1 billion	
		Tax Credits fraud	£460 million	
Private sector £12 billion	Financial**	£3.6 billion	Insurance fraud	£2.1 billion
			Mortgage fraud	£1 billion
			Plastic card fraud	£440 million
			Online banking fraud	£60 million
			Cheque fraud	£30 million
			Motor finance fraud	£16 million
			Telephone banking fraud	£12 million
	Retail, wholesale and distribution	£2.7 billion	Corporate fraud against large businesses	£2.6 billion
			Small to medium sized business fraud	£169 million
	Travel, leisure and transportation	£1.9 billion	Corporate fraud against large businesses	£1.8 billion
			Small to medium sized business fraud	£97 million
	Manufacturing	£945 million	Corporate fraud against large businesses	£920 million
			Small to medium sized business fraud	£25 million
	Professional services	£832 million	Corporate fraud against large businesses	£624 million
			Small to medium sized business fraud	£208 million
	Telecommunications**	£730 million	Telecommunications fraud	£730 million
	Construction and engineering	£567 million	Corporate fraud against large businesses	£360 million
Small to medium sized business fraud			£206 million	
Consumer goods	£294 million	Corporate fraud against large businesses	£294 million	
		Small to medium sized business fraud***	-	
Natural resources	£135 million	Corporate fraud against large businesses	£111 million	
		Small to medium sized business fraud	£24 million	
Healthcare	£132 million	Corporate fraud against large businesses	£132 million	
		Small to medium sized business fraud	£0.31 million	
Other	£50 million	Corporate fraud against large businesses	-	
		Small to medium sized business fraud	£50 million	
Third sector £1.3 billion	Charity	£1.3 billion	Charity fraud	£1.3 billion
Individuals £4 billion	N / A	£4 billion	Mass marketing fraud	£3.5 billion
			Rental fraud	£314 million
			Online ticket fraud	£168 million
Total AFI 2011 fraud loss		£38.4 billion		£38.4 billion

* This figure only captures reported / detected fraud losses.

** It is not possible to separate out losses suffered by small, medium and large businesses for these industries.

*** None of the respondents to the survey run by the Federation of Small Businesses, classified themselves in this category, therefore we were unable to calculate an estimate of fraud against small to medium sized businesses for this industry.

Fraud by sector

Public sector - £21.2 billion

HM Revenue and Customs (HMRC) and the Department for Work and Pensions (DWP) have developed their own robust methodologies for measuring tax fraud, tax credits fraud and benefit fraud. The latest fraud loss estimates published by these two organisations have been included in the AFI public sector fraud loss estimate. Other reliable fraud loss figures have been provided by the Department for Transport (vehicle excise fraud), the NHS Counter Fraud Service (patient charges fraud and NHS bursary fraud), the Department for Business, Innovation and Skills (student loans fraud), the BBC (television licence fee evasion), the Audit Commission (council tax fraud, pension fraud) and National Savings and Investments.

These figures have been supplemented with estimates of key public sector fraud types such as procurement, grant and pay to help provide a more comprehensive estimate of fraud. NFA fraud estimates of housing tenancy fraud and blue badge scheme misuse have also been incorporated.

Using a combination of updated fraud loss figures and NFA top-down estimates, public sector fraud is estimated to cost £21.2 billion a year. While public sector losses represent a significant proportion of the overall increased fraud measure, these losses should be seen in the context of more mature and sophisticated measurement processes within government, combined with new top-down estimates of fraud for areas of public sector spending not captured in the AFI 2010.

Fraud losses identified by HMRC and DWP account for around 80 per cent of all public sector fraud loss. Tax fraud is estimated at £15 billion which is around three per cent of total net tax liabilities. Fraud in the welfare system is estimated at £1.5 billion; around 0.9 per cent of total expenditure in this area. This is made up of £1 billion in DWP administered benefits (0.7 per cent of total expenditure) and £460 million² in tax credits fraud (1.9 per cent of expenditure). In total, the Government currently pays out around £190 billion in benefits, tax credits and child benefit which are administered by the DWP and HMRC, accounting for 28 per cent of all government spending in 2009-10.

The remaining public sector fraud loss breaks down as £2.6 billion for central government and the NHS and £2.1 billion for local government. Within these figures, procurement fraud is estimated at £2.4 billion and grant fraud is estimated at £515 million. Housing tenancy fraud losses of £900 million and payroll fraud losses of £329 million also account for significant fraud losses across the public sector.

This updated public sector fraud figure of £21.2 billion is higher than the £17.6 billion figure published by the NFA in January 2010 as it includes some reported fraud increases as well as new fraud estimates for areas of government expenditure not previously covered in the AFI 2010³.

² Figures rounded to the nearest £10 million.

³ This figure also differs from the fraud loss estimate of £25 billion provided in the NFA Public Sector Fraud Task Force report published in March 2010. This revised figure of £21.2 billion only includes top-down estimates for areas of public sector expenditure where the NFA is reasonably confident that the estimate is a reliable reflection of loss in that area. The original estimate of £25 billion published in March 2010 included top-down estimates for all areas of government spending and revenue, not just payroll, grant and procurement.

Fraud by sector

Private sector fraud- £12 billion

For the AFI 2010, a breakdown of fraud loss by sector was provided to help illustrate fraud loss across the UK economy. A similar approach has been taken this year, drawing from fraud loss figures provided by the banking, insurance and telecommunications industry and NFA top-down estimates of fraud against large businesses and fraud against small to medium sized businesses. These top-down estimates were produced using surveys carried out by the Economist Intelligence Unit (published in the KROLL Global Fraud Report 2009) and the Federation of Small Businesses.

The financial services industry has the highest estimated fraud loss at £3.6 billion. This figure mostly captures losses resulting from insurance (£2.1 billion), mortgage (£1 billion) and plastic card (£440 million) frauds. This figure is based on fraud loss estimates provided by Financial Fraud Action UK, the Association of British Insurers, the Insurance Fraud Bureau and industry expert estimates of mortgage fraud. The retail, wholesale and distribution sector is estimated to have the second highest level of loss at £2.7 billion; followed by the travel, leisure and transportation industry (£1.9 billion), the manufacturing industry (£0.9 billion) and the professional services industry (£0.8 billion).

Fraud against large companies accounts for more than 90 per cent of private sector fraud loss with an estimated loss of £11.2 billion a year. This figure accounts for 0.8 per cent of industry turnover for large businesses during 2009-10.

For the first time an estimate of fraud against small to medium sized businesses has been captured within the AFI. It is estimated that small to medium sized businesses (those employing less than 250 people) lose at least £780 million a year to fraud. This figure accounts for just 0.05 per cent of turnover of small to medium sized businesses. This figure would probably be much higher if undetected loss was to be included.

Individual fraud - £4 billion

In 2006, the Office of Fair Trading (OFT) carried out a survey looking at the impact of mass marketing fraud. In total, 11,200 people were surveyed and detailed follow-up interviews carried out with 1,900 people. Respondents were asked about their experiences of mass marketing fraud, including whether they had ever been the victim of a fraud (or knew someone who had been a victim), and how much money had been lost. The findings of this survey were used to inform an individual fraud loss estimate for the AFI 2010.

At the time the last AFI was published, it was expected that this survey would be repeated in 2010 in order to provide a more up-to-date measure of mass marketing fraud; however the survey was not repeated last year. Instead, the NFA hopes to obtain a refreshed picture during the coming year through a new individual fraud loss survey.

In the meantime, there is nothing to indicate that this type of fraud has fallen, indeed the reverse may be true. However, the breakdown by fraud types will have shifted considerably with a marked increase in new cyber enabled fraud types, which were of little or no significance five years ago. Therefore, the overall OFT estimate of £3.5 billion has been used as the basis of an individual fraud loss measure but individual fraud types captured within the OFT publication have not been re-reported in this AFI.

In total, it is estimated that fraud against individuals resulted in losses of at least £4 billion a year, of which £3.5 billion is the result of mass marketing fraud. This £4 billion figure captures new NFA estimates relating to online ticket and rental fraud (estimated at £168 million and £314 million respectively). Further details of these fraud types can be found in the glossary section of this publication.

Fraud by sector

Third sector - £1.3 billion

The third sector (also known as the voluntary sector or not-for-profit sector) is the part of the UK economy that includes charities, voluntary organisations, not-for-profit organisations and social enterprises. The Office for Civil Society (part of the Cabinet Office Efficiency and Reform Group) leads work across government to support this sector.

The NFA's focus for this year in quantifying fraud loss in the third sector has been on measuring fraud against charities. With more than 180,000 charities registered with the Charity Commission for England and Wales, and a combined income of over £52 billion each year, the potential for fraud against charitable organisations is likely to be significant.

Last year, the AFI estimate of detected fraud within the charity sector was around £32 million a year, representing 0.06 per cent of the sector's annual gross income. It was acknowledged at the time that this estimate was likely to be a significant underestimate of charity fraud because it only took into account detected fraud loss.

This year, the NFA carried out targeted measurement work in order to produce a more realistic estimate of fraud in the charity sector. A survey was issued to 10,000 registered charities asking them to share their experiences of fraud against their charity and provide an opinion on what percentage of their charity's income may be lost to fraud. More than 1,000 charities responded to our survey.

Using data collated from this survey, it is estimated that fraud against the charity sector costs £1.3 billion a year. This figure captures fraud against charities (for example fraud perpetrated by employees / volunteers or fraudulent applications for grants / financial support) as well as some of the financial impact that fake or sham charities have on legitimate charities. It does not include fraud against charities registered in Scotland and Northern Ireland, who come under separate regulation.

This measure of fraud against charities is the first to attempt to take into account all fraud losses against charities, including undetected fraud. While this estimate of charity fraud appears to be relatively high, the estimated percentage of turnover lost to fraud (2.4 per cent) is broadly in line with other measures of fraud in both the public and private sectors.

Fraud glossary

Fraud glossary

The following section gives a breakdown of figures by category of fraud and provides further details on the source of fraud loss figures used to calculate the headline figure. The glossary is not exhaustive as it only contains fraud types where fraud loss figures were available. As fraud measurement work continues, this list is likely to grow.

These figures cannot be totalled together. In order to provide a better perspective of fraud, there are some figures included in this section where the figures overlap with other fraud categories. These sections have been marked (*) and are excluded from the overall fraud loss calculation so as not to count fraud loss figures twice.

22	Benefit fraud	34	Patient charges fraud
23	Blue badge scheme misuse	34	Payroll and recruitment fraud (public sector)
23	Charity fraud	35	Pension fraud
24	Cheque fraud*	36	Plastic card fraud*
24	Corporate fraud against large businesses	36	Procurement fraud (public sector)
25	Council tax fraud	37	Rental fraud
26	Grant fraud (public sector)	37	Small to medium sized business fraud
27	Housing tenancy fraud	38	Staged / induced motor accidents (organised) fraud*
27	Identity fraud*	38	Student finance fraud
28	Insurance fraud*	39	Tax credits fraud
28	Mass marketing fraud	39	Tax fraud
32	Mortgage fraud*	40	Telecommunications fraud*
32	Motor finance fraud*	40	Telephone banking fraud*
33	National Savings and Investment fraud	40	Television licence fee evasion
33	Online banking fraud *	41	Vehicle excise fraud
33	Online ticket fraud		
33	Organised crime (fraud)*		

Fraud glossary

Benefit fraud

£1 billion

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, jobseeker's allowance, pension credit, incapacity benefit and housing benefit. DWP also carry out one-off 'snapshot' measurement exercises ('National Benefit Reviews'), for over 50 per cent of the remaining benefits, which estimate the level of fraud and error over a single year for those benefit areas, following the same process as those measured on a continuous basis. The remaining benefits are not subject to specific review. For these benefits the estimates are based on comparable measured benefits.

In May 2010 the DWP published interim estimates of benefit fraud and error for 2009-10⁴, estimating annual fraud and error losses to be £3.1 billion. Of this, £1 billion was lost as a result of fraud in the benefit system, representing 0.7 per cent of £148 billion worth of benefit expenditure. This figure represents a slight decrease in fraud losses compared to estimated fraud losses of £1.1 billion for 2008-09 as reported in the AFI 2010, although the difference in these figures is not reported as statistically significant by the DWP. In real terms, the DWP have indicated that benefit fraud losses have broadly remained the same since the AFI 2010 was published.

In previous years, income support has represented the largest area of loss; however, housing benefit fraud increased by £70 million, from £190 million in 2007-08 to £260 million in 2009-10, and is now the largest area of loss within the benefits system. Income support fraud was the second highest area of benefit fraud loss with estimated losses of £240 million; followed by job seekers allowance fraud (£120 million), pensions credit fraud (£90 million) and incapacity benefit (£30 million). Estimated fraud losses for unreviewed benefits accounted for £120 million in losses during 2009-10. These figures have been rounded to the nearest million.

⁴ Department for Work and Pensions (May 2010)
'Fraud and Error in the Benefit System:
October 2008 to September 2009'

Fraud glossary

Blue badge scheme misuse

£46 million

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.

Data provided by the Department for Transport (DfT) and Blue Badge Fraud Investigation Limited (BBFI), was used to produce an estimate of lost parking revenues resulting from misuse of the blue badge scheme. According to BBFI, misuse of this scheme varies from four per cent to 70 per cent depending on the location of use, with an average of 20 per cent of all blue badges in circulation being misused in some way. In busy retail areas the figure is 40 to 60 per cent misuse. Using average financial benefit figures published by the DfT⁵ and taking into account regional variations (such as London, metropolitan, city and town / rural areas), it is estimated that there are around half a million blue badges misused. This results in fraud losses of £46 million a year.

⁵ Department for Transport (March 2010) 'Blue Badge Reform Programme: A Consultation Document'.

⁶ Fraud Advisory Panel (2008) 'Charity fraud: occasional paper 01/08'

For the purpose of this estimate the average financial benefits to an 'infrequent' user, ranging from £35 to £315 a year depending on the area, have been applied. The actual cost of blue badge scheme misuse could be much higher if those people misusing the blue badge scheme are 'medium' or 'regular' users of the scheme.

Charity fraud

£1.3 billion

Charity fraud can be broadly defined as any fraud perpetrated within or against a charitable organisation⁶. 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 tax⁷.

For the AFI 2010 the NFA published an estimate of £32 million for fraud in the charity sector, based on the findings of a survey carried out in 2008 by the Fraud Advisory Panel. It was acknowledged at the time of publication that this figure was likely to be a significant underestimate of charity fraud loss as it did not take into account undetected fraud loss.

This year, the NFA carried out targeted measurement work in order to produce a more realistic estimate of fraud in the charity sector. A survey was issued to 10,000 registered charities of various sizes asking them to share their experiences of fraud against their charity, including their estimate of the percentage of their charity's income that is lost to fraud. More than 1,000 charities responded to our request for information.

⁷ The abuse of charity status to avoid paying tax is not captured in this charity fraud estimate as it is a type of tax fraud against HM Revenue and Customs and is included in the tax fraud figure.

Fraud glossary

The survey revealed that 11 per cent of all charities have been the victim of fraud at least once within the last five years. Of those identifying themselves to be a victim of fraud, 47 per cent had been the victim of fraud perpetrated by an employee or volunteer. The survey also asked charities to identify the likelihood of their charity being the victim of certain types of fraud. Theft of inventory and the skimming of collection money were considered to be the highest risk areas for internal incidents of fraud. For external fraud, the unauthorised use of the charity's name to collect funds was considered to be the most significant fraud risk followed by fraud perpetrated by suppliers or contractors.

In order to calculate an estimate of charity fraud, respondents were asked to provide an estimated figure relating to the percentage of their charity's income that is lost to fraud (taking into consideration undetected fraud loss). Over 750 charities responded to this question. Respondents were also asked to confirm how confident they were in their answer, ranging from 'not sure' to 'very sure'.

It is estimated that charities lose on average 2.4 per cent of their annual turnover to fraud, based on the average percentage of lost turnover reported only by those respondents who reported themselves to be 'sure' or 'very sure' of their estimate. This equates to lost turnover of around £1.3 billion a year. This figure captures fraud against charities (for example fraud perpetrated by employees/volunteers or fraudulent applications for grants/financial support). This figure also captures some of the financial impact that fake or sham charities have on legitimate charities. However, it does not include loss resulting from organisations who are promoted as if they are charitable, but are in fact not registered as a charity, with no intention of using donations for charitable purposes.

Cheque fraud

£30 million*

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 2008⁸.

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. It is estimated that £16 million was lost as a result of forged cheques in 2009, a reduction of 10 per cent from 2008. 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.

Although this is the lowest level of cheque fraud reported since 2002, there has been a significant decline in the use of business and personal cheques, with 3.5 million cheques issued each day in 2009 compared to 11 million in the peak year for cheque volumes in 1990.

Corporate fraud against large businesses

£11.2 billion

Corporate fraud refers to any fraud committed by or against a large company (i.e. more than 250 employees) by management, employees and third parties. Some examples of corporate fraud include internal financial fraud, financial mismanagement, regulatory or compliance breach, procurement and supplier fraud plus industry specific threats such as mortgage and insurance fraud.

⁸ Financial Fraud Action UK (February 2010) 'Fraud the Facts 2010'.

Fraud glossary

Overall, it is estimated that corporate fraud costs £11.2 billion a year. This figure is based on industry estimates provided by the banking, insurance and telecommunications industries and NFA top-down estimates of fraud against large businesses in other private sub-sectors.

Fraud in the financial services industry is estimated at £3.6 billion. Insurance and mortgage fraud account for around 80 per cent of all losses in this area (£2.1 billion and £1 billion respectively). The remaining losses are the result of plastic card, online banking, telephone banking, motor finance and cheque fraud. Based on data provided by the Telecommunications UK Fraud Forum, telecommunications fraud is estimated to cost £730 million a year. These figures do not capture estimates of non-industry specific fraud types such as employee fraud. For further details on these fraud types please refer to the relevant sections elsewhere in this glossary.

There are no figures available for private sector fraud losses beyond the financial services and telecommunications industry. Because of this, the NFA has produced supplementary estimates of corporate fraud for those sub-sectors where figures are not available. These figures have been calculated by extrapolating the findings of a survey carried out by the Economist Intelligence Unit (EIU), published in the KROLL Global Fraud Report 2009.

According to the Department for Business, Innovation and Skills, there were 5,885 large companies in the UK during 2009-10, with a combined turnover of £1.3 trillion⁹. By mapping the industry classifications of these large enterprises as closely as possible against the 10 industries defined in the KROLL Global Fraud Report, fraud losses can be estimated for UK private sector companies by applying the average loss reported by companies across each industry along with the number of companies reporting to be the victim of fraud.

Using this approach, it is estimated that UK large businesses (excluding the financial services and telecommunications industry) lose around £6.8 billion a year. The retail, wholesale and distribution sector is estimated to be one of the highest losing industries in the private sector with an estimated loss of £2.7 billion (second only to the financial services industry) followed by the travel, leisure and transportation (£1.9 billion), manufacturing (£0.9 billion) and professional services industry (£0.8 billion).

There are methodological issues with the approach taken, not least because the extrapolation assumes global fraud threats to be indicative of fraud threats faced by UK businesses. In the coming year, it is hoped that a UK survey will be carried out by the NFA in partnership with the private sector, in order to provide a more reliable estimate of UK business loss.

Council tax fraud

£90 million

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.

The focus so far for local authorities has been to review council tax and single person discount (SPD) fraud. SPD allows households to claim a 25 per cent reduction on the cost of council tax where there are no residents aged 18 or over living at that address.

⁹ Department for Business, Innovation and Skills (October 2010) 'Statistical Press Release: URN 10/92'

Fraud glossary

According to the Audit Commission's report 'Protecting the Public Purse 2010', councils have noted a sharp rise in the number of people claiming SPD in recent years with an increasing number of fraudulent applications. An analysis of the action taken by 26 councils in tackling SPD fraud found that four to six per cent of claims were fraudulent. Assuming a conservative estimate of four per cent, the Audit Commission estimates that local authorities in England lose around £90 million each year as a result of SPD council tax fraud.

This estimate does not capture evasion of council tax payments, nor does it account for fraud for other types of discounts or exemptions such as student exemption and non-occupancy. Because of this, the real cost of council tax fraud is likely to be much higher, once other discounts and exemptions have been taken into account.

Grant fraud (public sector)

£515 million

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 depends 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, although this includes social benefit expenditure. An analysis of COINS data¹⁰ carried out by the NFA has identified that in 2009-10, the Government spent approximately £257 billion on grants. This figure captures capital

grants, grants abroad, grants to persons and non-profit bodies plus subsidies to private sector companies and public corporations.

For the purpose of calculating a grant estimate, social benefit spend was excluded as fraud against this area of expenditure is already captured within benefit and tax credits fraud figures provided by HM Revenue and Customs and the Department for Work and Pensions. Spend relating to the grant element of student lending was removed as this area of fraud is covered as 'student finance fraud'. Capital grants and subsidies to public corporations were also excluded as fraud risks within these areas are relatively unknown and are likely to be low compared to other types of grants.

The remaining grant expenditure (once these categories of spending have been removed) amounted to around £52 billion in 2009-10. Typically, the level of fraud across grant spending ranges from around one per cent to 3.5 per cent¹¹. For the purpose of calculating an estimate of grant fraud, a more conservative estimate of one per cent has been applied against spend in this area as it is not possible to determine the exact nature and the relative fraud risks associated with remaining grant spend. Based on an assumption that around one per cent of grant spend is lost to fraud, grant fraud is estimated to cost £515 million in 2009-10. Of this, £472 million is estimated to have been lost by central government and £43 million lost by local government.

Caution is needed when reviewing this estimate as it only provides an illustrative figure of grant fraud in the public sector. Further work is required to identify a more robust methodology for this area of fraud.

¹⁰The Combined Online Information System (COINS) is a database of UK Government expenditure provided by government departments.

¹¹Based on grant/benefit fraud measurement work carried out by the Department for Work and Pensions, HM Revenue and Customs, NHS Counter Fraud Service and Student Loans Company.

Fraud glossary

Housing tenancy fraud

£900 million

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. Housing tenancy fraud is a growing problem for local authorities – particularly authorities in metropolitan areas where demand for social housing is high. There are around 3.8 million social housing properties in England, available to families and individuals who cannot easily obtain suitable accommodation from the private sector. Unlawful occupation of social housing has a direct financial impact on local authorities because they are responsible for providing and paying for temporary accommodation for homeless people who could otherwise be housed in permanent social housing. The cost of housing families and individuals in temporary housing can be significant, particularly in high cost areas such as London.

The Audit Commission's publication 'Protecting the Public Purse 2010', estimates that 50,000 properties are unlawfully occupied in England. They also provide an average cost of £18,000 to house a family or individual in temporary housing per year. Multiplying this average cost of temporary housing with the number of properties unlawfully occupied (which would otherwise be available for occupation) the NFA estimates that housing tenancy fraud costs local authorities in England around £900 million a year. This estimate is higher than our housing tenancy estimate published in the AFI 2010, because the cost of temporary accommodation has been adjusted to include the administration costs incurred; this more accurately reflects the full cost to the public purse of such frauds.

Identity fraud

£1.9 billion*

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. Further clarification of the terms identity crime, identity theft and identity fraud will be forthcoming, which will allow for a clearer definition of identity fraud for the purpose of measuring the cost of ID fraud in the UK.

For the purpose of calculating an estimate of identity fraud, the findings of a survey carried out by the US Federal Trade Commission¹² have been applied to the UK in order to provide an estimate of the cost of ID fraud. Based on the findings of this survey, it is estimated that around 1.8 million people in the UK fall victim to identity theft each year. The majority of identity fraud victims (around 78 per cent) will have had their plastic card, bank account or other account abused as a result of identity theft. However, it is estimated that more than 380,000 victims will have been the victim of a more serious fraud, having had their personal information stolen and used to open new accounts or commit other frauds.

Assuming that the nature and prevalence of identity fraud in the US is similar to the UK and that the average loss per US victim is indicative of the average loss amongst UK victims, it is estimated that around £1.9 billion is lost each year to identity fraud. A significant proportion of this loss (£900 million) is attributed to stolen identities being used to open new accounts or perpetrate other frauds.

¹² US Federal Trade Commission (November 2007) '2006 Identity Theft Survey Report'.

Fraud glossary

If the costs of responding to and dealing with identity fraud are taken into consideration, it is estimated that the real cost of identity fraud is at least £2.7 billion a year; a figure highlighted in the NFA's recent 'Strategic Threat Assessment' on identity fraud. This figure was picked up by the media in October 2010 as part of the National Identity Fraud Prevention Week and helped to raise awareness of the seriousness of identity fraud.

This revised estimate of identity fraud loss is a more realistic estimate than previous figures as it is based on individual accounts of how much money was acquired by the fraudster. However, this estimate does not capture corporate identity fraud and is unlikely to represent identity theft against small to medium sized businesses.

Insurance fraud

£2.1 billion*

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.

¹³International Mass-Marketing Fraud Working Group (June 2010) 'Mass-Marketing Fraud: A Threat Assessment'.

Based on figures provided by the Association of British Insurers and the Insurance Fraud Bureau, insurance fraud is estimated to cost £2.1 billion a year. This estimate breaks down into £1.7 billion in undetected fraud loss, £350 million in organised staged / induced motor vehicle accidents and £34 million in detected insurance fraud (where claims are paid before they have been identified as fraudulent). These fraud losses apply only to the general insurance market as undetected fraud in the long-term market is believed to be low. The figures also do not capture insurance fraud loss resulting from people providing false or misleading information in order to lower their insurance premiums.

Mass marketing fraud

£3.5 billion

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 follow¹³. 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.

See box A for some examples of mass marketing frauds.

Fraud glossary

Box A

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. Other variations include inheritance schemes, in which perpetrators require victims to pay fictitious fees and taxes to claim on non-existent estates of previously unknown and now-deceased relatives, and black-money schemes that solicit victims to purchase special cleansers to remove dye from paper currency that has, for various reasons, been blackened and rendered unusable.

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) or in some cases, getting the victim to facilitate or carry out fraudulent acts on their behalf.

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, cash prizes or valuable items, provided that the victims first purchase certain products or make advance payments of fictitious fees and taxes. Perpetrators often use counterfeit financial instruments to enhance these schemes' appearance of credibility.

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.

Fraud glossary

Box A

Examples of mass marketing fraud (continued)

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. One prevalent variation of this type of fraud is 'share sale' or 'boiler room' fraud, whereby bogus stockbrokers (usually based overseas) cold call people and pressure them into buying shares that promise high returns. In reality, the shares are either worthless or non-existent.

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'. This fraud is similar to work at home fraud whereby a work or business opportunity is advertised offering a quick way to make lots of money from home without having any qualifications, skills or expertise. A fee is requested from the victim up front. After this money has been paid, the victim either finds that there is either no work to do or that they will not be paid for any work done.

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. Pyramid schemes may try to appear legitimate by claiming that members will receive benefits such as discounted travel services, or will make money by selling goods and services, but the real purpose of the scheme is to encourage victims to recruit new members and invest their own money in the scheme with an unlikely return on the investment. A variation of this type of fraud is matrix schemes where victims are offered the opportunity to receive a valuable 'free gift' by purchasing a low-value product from a website. The person at the top of the list will receive the free gift only when a prescribed number of new recruits have signed up. These schemes operate in a similar way to pyramid schemes, in that the number of members waiting for their 'free gift' will always far exceed the number of 'free gifts' actually awarded.

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. Perpetrators may entice victims with predictions of extreme good fortune and threaten bad luck should victims fail to comply with the demands for money.

Fraud glossary

The financial impact of mass marketing fraud on victims varies. At the one extreme, lottery and prize draw scams entice large numbers of victims into each paying in small amounts of money, typically £20 to £40. At the other end of the scale a smaller number of victims part with large sums of money, ranging from £5,000 to £250,000 in pursuit of share sale, romance, prize draws and lottery frauds.

In 2006, the Office of Fair Trading (OFT) carried out a survey looking at the impact of mass marketing fraud¹⁴. In total, 11,200 people were surveyed and detailed follow-up interviews carried out with 1,900 people asking about their experiences of mass marketing fraud.

Based on the findings of this survey it is estimated that around 3.2 million people fall victim to mass marketing fraud each year, resulting in losses of £3.5 billion. The most costly frauds reported in 2006 were holiday clubs, high risk investments, pyramid schemes and lottery frauds. Premium rate, internet dialler and work at home frauds also had a relatively high number of victims but typically resulted in lower average losses.

At the time the last AFI was published, it was expected that this survey would be repeated in 2010 in order to provide a more up-to-date measure of mass marketing fraud; however the survey was not repeated last year. Therefore the OFT estimate of £3.5 billion has been used as the basis of an individual fraud measure.

While there is little reason to believe that this figure is lower than it was five years ago, it is likely that there will have been a considerable shift in fraud losses between individual fraud types reported by the OFT; especially in light of a marked increase in cyber crime enabled fraud types which were of little or no significance five years ago. Because of this, individual fraud losses by fraud type (as reported by the OFT) have not been re-reported in this AFI.

Although no updated research has been carried out looking at fraud losses resulting from mass marketing fraud, recent research carried out by Age UK in December 2010 has provided a more up-to-date picture of the prevalence of mass marketing fraud in the UK.

According to the findings of the Age UK survey, 29 per cent of those questioned said that they have been targeted by correspondence which they thought was part of a scam in the last 12 months. Most of those approached said that they had been targeted online or by telephone.

Of those who had been targeted, 17 per cent said they had fallen for the fraud although 36 per cent of those believing the fraud did not actually lose any money. For the 60 per cent of people who did lose money, the majority reported losing less than £300. However eight per cent of victims reported losing more than £1,000 within which some people reported losing £5,000 or more.

¹⁴Office of Fair Trading (December 2006)
'Research on impact of mass marketed scams';

Fraud glossary

Mortgage fraud

£1 billion*

The mortgage market has changed significantly over the last couple of years. There has been a decrease in the volume and value of mortgage products sold (falling by 44 per cent from £254 billion in 2008 to £144 billion in 2009) as well as changes in the types of products available and a number of lenders withdrawing from the market. Despite these changes, the mortgage industry still loans approximately £12 billion each month, making it an attractive target for fraudsters¹⁵.

Calculating a reliable estimate of mortgage fraud has been challenging for both the NFA and the mortgage lending community. Because of this lenders have been unable to provide specific data relating to actual mortgage fraud losses during 2009.

To enable updated mortgage fraud data to be included in the AFI 2011, the NFA contacted mortgage experts from lenders representing 98 per cent of the mortgage market to obtain their opinion on mortgage fraud loss during 2009. While there were differences in the opinions provided by respondents, the estimates provided fell broadly in line with the fraud loss figure of £1 billion reported in the AFI 2010.

This estimated figure should be viewed in the context of a significant decline in mortgage lending during 2009. In 2008, losses of £1 billion would have accounted for 0.4 per cent of total lending. In 2009 it accounts for 0.7 per cent of lending. However, as this estimate is based on industry opinion only, it is not possible to conclude that mortgage fraud increased from 2008 to 2009.

Motor finance fraud

£16 million*

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).

The Finance Leasing Association (the leading trade association for the asset, consumer and motor finance sectors in the UK) has recently published updated fraud loss figures for motor finance fraud. In the 12 months leading up to September 2010, FLA members reported 890 fraud cases with an estimated loss value of £16 million. These fraud losses are relatively low compared to other types of finance fraud and should be seen in the context of over 10,000 cases of motor finance fraud successfully prevented, representing fraud savings of £125 million a year. Motor finance fraud has broadly remained the same since 2006.

¹⁵National Fraud Authority (March 2010)

'Working together to stop mortgage fraud: progress report'

Fraud glossary

National Savings and Investments fraud

£0.39 million

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.

During 2009-10, NS&I suffered fraud losses of £393,000. 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

£60 million*

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 cent¹⁶. 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 was also more than 51,000 phishing incidents recorded during 2009 – a 16 per cent increase on the amount seen in 2009. This increase has gone hand in hand with a rise in the number of people banking online. In 2009, more than half of all internet users banked online, with more than 24 million adults accessing at least one online bank account.

¹⁶Financial Fraud Action UK (February 2010)
'Fraud the Facts 2010'.

Online ticket fraud

£168 million

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.

Research carried out by the Office of Fair Trading in September 2009 identified that one in five people know of someone who has bought tickets from a fake ticketing website. The survey also showed that about six per cent of those surveyed had actually been the victim themselves, having bought music, sport or theatre tickets from a website that appeared to be genuine. The survey found that men were twice as likely to be tricked into purchasing non-existent tickets compared to woman.

Based on the findings of this survey it is estimated that around 2.6 million people fall victim to this type of fraud each year, resulting in losses of £168 million a year based on an average loss of £80 per victim.

Organised crime (fraud)

£8.9 billion*

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.

Work was initiated in May 2010 to produce an estimate relating to the proportion of UK fraud loss that was attributable to organised crime. Based on an analysis of fraud loss data included in the AFI 2011, it is estimated that around £8.9 billion a year is lost to organised crime. This accounts for around a quarter of all UK fraud losses. This figure refers to financial losses resulting from OCG activity only and does not capture high value frauds committed by organised groups not actually linked to known OCG activity.

Fraud glossary

To produce this estimate, a review of AFI 2011 fraud loss figures was carried out to identify areas of fraud that are known to be linked to organised crime. In total, ten key areas were identified as having links to organised criminal activity including benefit fraud, tax credits fraud, mass marketing fraud, insurance fraud, plastic card fraud, tax fraud, banking fraud, mortgage fraud, telecommunications fraud, telephone banking fraud and cheque fraud.

Estimates were obtained from industry experts in order to calculate the proportion of fraud losses attributable to organised crime for each fraud type. Where possible, these estimates were validated by seeking estimates from more than one source to help corroborate initial estimates from representative organisations. These estimates were then applied to the AFI 2011 fraud loss figures to calculate an overall organised crime fraud loss figure.

Whilst this approach does not necessarily provide the level of accuracy of other fraud loss estimates included in this publication, it still provides an indication of likely fraud loss resulting from organised crime groups participating in fraud. Further work is needed in this area to develop a more robust measure of fraud losses resulting from OCG activity as understanding in this area is relatively immature.

Patient charges fraud

£165 million

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.

In total, patient charges fraud is estimated to cost the UK £165 million a year. In England and Wales alone, the NHS Counter Fraud Service estimates that £156 million was lost as a result of patient charge evasion during 2007-08; an increase of almost £79 million in the level of these losses since previous measurement exercises. In Northern Ireland, patient charges fraud is estimated to cost £9 million a year based on figures provided for 2008-09.

Payroll and recruitment fraud (public sector)

£329 million

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.

Fraud glossary

With over six million people employed in the public sector, and expenditure in this area accounting for a quarter of all government spend, this is an area of fraud that is likely to account for significant losses in the public sector. At the time of publication, there was only limited data available relating to the level of payroll and recruitment fraud in the public sector and of the data that was available, only reported fraud was captured within it.

For the purpose of calculating a public sector payroll and recruitment fraud figure for the AFI 2011, the NFA has applied a loss percentage to total public sector pay spend for 2009-10 in order to provide an indicative estimate of loss in this area.

An analysis of COINS data¹⁷ carried out by the NFA has identified that in 2009-10, public expenditure relating to pay across both central and local government was £169 billion. A percentage rate of 0.2 per cent has been applied to this pay figure to produce an estimate of £329 million for payroll and recruitment fraud. This breaks down as £177 million in central government and £152 million in local government. These figures reflect money paid out in salaries and allowances for employees who either do not exist, do not work in the public sector, are being paid the wrong salary / allowance as a result of unauthorised amendments to the payroll systems, or who provided false information in order to gain employment in the public sector.

Caution is needed when reviewing this estimate as it only provides an illustrative figure for payroll and recruitment fraud in the public sector. Further work is required to identify a better measure in this area.

Pension fraud

£16 million

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.

The Audit Commission National Fraud Initiative (NFI) matches occupational pension data for NHS, central government (excluding the state pension), local government and the private sector against the records of deceased persons held by the Department for Work and Pensions.

To date, the most recent NFI exercise has identified 2,643 cases (2,018 public sector and 625 private sector), where pensioners had died but where payments continued to be made. Overpayments prevented and detected totalled £86 million. Losses prevented were estimated using the Cabinet Office formula, which multiplies the annual pension by the number of years until the pensioner would have reached 90.

In order to calculate an annual fraud loss figure, the average public sector pension payment of £7,800 has been applied to the 2,018 public sector cases, to produce an annual public sector occupational pension fraud figure of £16 million. Based on the number of matches per pension type (i.e. NHS, teachers, civil service, armed forces, local authority, police etc) this figure breaks down as £7 million in central government and £8 million in local government pension fraud. These figures do not include state pension and only capture detected fraud.

¹⁷The Combined Online Information System (COINS) is a database of UK Government expenditure provided by government departments.

Fraud glossary

Plastic card fraud

£440 million*

Over 11 billion transactions were made on UK cards in 2009, with spending on UK cards amounting to £396 billion. According to the latest figures published by Financial Fraud Action UK, total fraud losses on UK cards fell by 28 per cent between 2008 and 2009 to £440 million – a decrease of £170 million¹⁸. This is the first time that card fraud has decreased since 2006.

Cardholder not present fraud (the theft of genuine card details that are then used to make a purchase over the internet, by phone, or by mail order) accounted for more than half of all card fraud losses at £266 million. However for the first time this type of fraud showed a decrease following year-on-year increases. Counterfeit card fraud (a fake card using compromised details from the magnetic stripe of a genuine card) showed the largest decrease, down 52 per cent to £81 million. The remaining plastic card losses resulted from lost and stolen cards, card ID theft and mail non-receipt, resulting in losses of £48 million, £38 million and £7 million respectively.

This reduction in plastic card fraud is in part the result of the introduction of chip and PIN plus the increasing use of sophisticated fraud screening detection tools and continuing growth of cardholder authentication processes to tackle cardholder not present fraud.

Procurement fraud (public sector)

£2.4 billion

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'), and is prevalent across all sectors of the UK.

There have been several examples of high value procurement fraud cases in central and local government in recent years, but few attempts to measure the cost of procurement fraud in the public sector. With no estimates available of procurement fraud across all public sector spend, an indicative estimate of procurement fraud has been calculated by the NFA by applying an estimated loss percentage to total public sector procurement spend for 2009-10.

An analysis of COINS data¹⁹ carried out by the NFA has identified that in 2009-10, public expenditure relating to procurement across both central and local government was £236 billion. A loss percentage of one per cent has been applied to this spend figure to provide an estimated procurement fraud loss figure of £2.4 billion (£1.5 billion central government, £855 million local government). This percentage figure is based on an 'at risk' figure used by the Ministry of Defence Police to estimate procurement fraud within their defence budget.

Caution is needed when reviewing this estimate as it only provides an illustrative figure for procurement fraud in the public sector. A new methodology for quantifying procurement fraud losses will be developed in the coming months through the cross-government Procurement Fraud Working Group, led by the NFA.

¹⁸ Financial Fraud Action UK (February 2010) 'Fraud the Facts 2010'.

¹⁹ The Combined Online Information System (COINS) is a database of UK Government expenditure provided by government departments.

Fraud glossary

Rental fraud

£314 million

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. The NFA has calculated an annual fraud loss estimate using the prevalence rate identified in the Shelter survey multiplied by an average fraud loss of £997 identified via Action Fraud in relation to reports of rental fraud²⁰. Based on this data, the NFA estimates that rental fraud costs individuals around £314 million a year.

Small to medium sized business fraud

£780 million

With around 4.8 million small and medium sized private sector enterprises in the UK, and a combined turnover of £1.6 trillion²¹, fraud against small to medium sized businesses is likely to account for significant loss. At the time the AFI 2010 was published, there were no estimates available for the cost of fraud against small and medium sized businesses.

Last year, joint targeted measurement work with the Federation of Small Businesses (FSB) was undertaken in order to produce an estimate of fraud against small and medium sized businesses for the AFI 2011. A survey was issued to 4,000 businesses asking them whether they had been the victim of fraud in the last 12 months and how much money they had lost. Survey respondents were only asked to include fraud where they had directly lost money (i.e. excluding credit card fraud where the bank accepted the loss).

Over 1,300 businesses responded to the FSB survey. 26 per cent confirmed their business had been a victim of fraud in the last 12 months, reporting an average loss of £2,725 per fraud. The findings of this survey were extrapolated across all small and medium sized businesses operating in the UK (taking into account variations in victimisation rates and average losses between industries) in order to calculate an estimate of fraud against small to medium sized businesses.

Based on these survey findings, it is estimated that £780 million is lost each year as a result of fraud against small to medium sized businesses. The professional services industry and the construction and engineering industry accounted for almost half of these fraud losses at £414 million.

²⁰ This figure excludes outlying reported loss values.

²¹ Department for Business, Innovation and Skills (October 2010) 'Statistical Press Release: URN 10/92'

Fraud glossary

Staged/induced motor vehicle accident fraud (organised)

£350 million*

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. Organised motor claims fraud often features professionals as enablers. These include for example, lawyers, claims management companies and medical practitioners who in some circumstances knowingly assist fraudsters.

The Insurance Fraud Bureau estimates that insurance companies lose £350 million²² a year as a result of organised staged or induced motor vehicle accident fraud. This figure is captured within the insurance fraud loss estimate.

Student finance fraud

£31 million

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.

The SLC and NHS Counter Fraud Service have independently carried out fraud measurement exercises to attempt to determine the potential for student finance related fraud. Both organisations have developed their fraud measurement methodology to take account of the likelihood of undetected fraud. The SLC have further developed their fraud measurement activity to measure the success of existing fraud prevention measures and inform future fraud prevention activity by identifying areas of risk. Based on the most recent estimates provided by these two organisations, it is estimated that student finance related fraud costs £31 million a year.

²² This figure is rounded to the nearest £10 million.

Fraud glossary

Tax credits fraud

£460 million

Child Tax Credit and Working Tax Credit were 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. In 2009-10, over £27 billion was paid out by HMRC to over six million families in the UK.

Tax Credits fraud is estimated by HMRC to have cost £460 million²³ in 2008-09, compared to £210 million in 2007-08²⁴. The split between error and fraud has changed due to a new penalty regime and associated guidance introduced by HMRC in compliance. This is the first year that the figures fully reflect the way that the new penalty regime distinguishes between error and fraud and therefore are not comparable to previous years.

Tax fraud

£15 billion

HM Revenue and Customs has published estimates for tax losses for a number of years. In December 2009, HMRC published an estimate of the overall tax gap – the difference between the amount that is due and the amount that is collected. This publication included an illustrative breakdown of the tax gap by behaviour for 2007-08 based on management assumptions and judgement.

In 2007-08, the size of the UK tax gap was estimated at £40 billion²⁵. For the purpose of calculating an estimate of tax fraud for the AFI 2010, it was assumed that the underlying behaviours described as, 'evasion', 'the hidden economy' and 'criminal attacks' represented fraud. It was estimated that these behaviours accounted for around £15 billion of the total £40 billion tax gap in 2007-08.

'Evasion' arises where individual or corporate customers deliberately omit, conceal or misrepresent information in order to reduce their tax liabilities. Behavioural 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. HMRC estimate losses to evasion to be around £7 billion.

'Hidden Economy' fraud consists of any undeclared economic activity arising from sources deliberately concealed from HMRC. 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'). HMRC estimate losses to hidden economy to be around £3 billion.

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. HMRC estimate losses to criminal attacks to be in the region of £5 billion.

HMRC has published a tax gap estimate for 2008-09 of £42 billion²⁶, although they have not yet published updated information on the breakdown of this tax gap by behaviour type. HMRC however, considers that within the total tax gap in 2008-09, fraud has remained at around £15 billion.

²³ Figures rounded to the nearest £10 million.

²⁴ HM Revenue and Customs (July 2010) 'Child and Working Tax Credits: Error and fraud statistics 2008-09'.

²⁵ HMRC (December 2009) 'Measuring Tax Gaps 2009'.

²⁶ HMRC (September 2010) 'Measuring Tax Gaps 2010'.

Fraud glossary

In the coming year, HMRC will be publishing a tax gap estimate for 2009-10, with further work planned on analysing the tax gap by behaviour. The intention is to produce a more robust breakdown by behaviour for the 2008-09 tax gap in 'Measuring Tax Gaps 2011'. These new estimates will be included in the AFI 2012.

Telecommunications fraud

£730 million*

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).

It is estimated by the Telecommunications UK Fraud Forum (TUFF) that in 2009, the UK telecommunications industry suffered losses of around £730 million, based on an average loss of 2.4 per cent against operator reported revenue of £30 billion. In the AFI 2010 it was reported that telecommunications fraud losses were £948 million a year. The decline in this estimated fraud loss reflects a 2.6 per cent decline in operator-reported retail telecommunication revenue for 2009 (the lowest figure since 2006).

This fraud loss estimate of £730 million provides an indication of the scale of telecommunications fraud although it should be acknowledged that fraud losses vary significantly depending on the telecommunications company. Large telecommunication companies are likely to lose much less than 2.4 per cent of their annual turnover to fraud. In contrast, small, start up telecommunications companies could lose anything up to 15 per cent of their annual turnover to fraud.

Telephone banking fraud

£12 million*

Phone banking losses were collated for the first time during 2009 with Financial Fraud Action UK reporting losses of £12 million for the year²⁷. Most of these losses involved customers being duped into disclosing security details through cold calling or fake emails, which criminals then use to commit fraud.

Television licence fee evasion

£196 million

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, a slight increase of £1 million from television licence fee evasion losses published in the AFI 2010. This increase is the result of an increase in the cost of a television licence in 2009-10 compared to 2008-09.

²⁷Financial Fraud Action UK (February 2010) 'Fraud the Facts 2010'.

Fraud glossary

Vehicle excise fraud

£46 million

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 2010-11²⁸. This represents lost revenue of 0.9 per cent. Some of this revenue will be recovered by DVLA enforcement activity or through vehicles' keepers back-licensing their vehicles. The estimate is up from £32 million in 2009-10; but slightly lower than £49 million in 2008-09, the figure published in the AFI 2010.

²⁸Department for Transport (2010)
'Vehicle Excise Duty Evasion 2010'.



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