



cutting through complexity

Fraud Barometer

2014 Report

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Welcome to the latest edition of the annual KPMG fraud barometer report, based on the bi-annual releases. The fraud barometer is the longest running survey of its kind in the UK with data spanning 28 years. It considers major fraud cases being heard in the UK's Crown Courts, where charges are in excess of £100,000. The bi-annual Barometer releases identify the latest fraud trends and patterns affecting the UK economy which helps us remain alert to new threats and respond to fraud risks in an appropriate and proactive manner.

The 2014 national picture

The data for 2014 starkly illustrated that fraudsters relied on, and abused, positions of authority or respectability in order to target individuals and businesses. For the victims, it appeared that people were too often willing to operate on blind trust when dealing with individuals in such positions, rather than employing a healthy sense of scepticism. A strong ethical culture inside an organisation is a critical defence to combating fraud. This was vividly illustrated by one case in 2014 in which an employee blackmailed a colleague upon discovering his misdeeds rather than whistleblowing; total losses to the company were £4 million, including £1m taken by the blackmailer.

Key highlights from the year

- Potential whistle-blower turned blackmailer.
- Number of victims was up by 25 percent, as fraud cases rose to 353.
- Improving economy saw corporates rise up the 'victim list'.

Coming in at an annual total value of £717 million, the figure represents a fall of 14 percent on last year's total. However, this good news is tempered by a 25 percent increase in the number of cases being heard by British Crown Courts – suggesting that the number of victims has risen in the twelve months to December 2014.

Some of the most notable cases revolve around conmen abusing positions of authority, making it clear that organisations need to pay attention to staff in positions of influence. The number of cases involving staff with authority over finances, for example, rose from 3 to 29 during the course of the year – with the value of their frauds jumping from £0.6 million to £11.7 million. Of particular note were individuals responsible for processing staff salaries, as the amount of money lost through payroll fraud climbed from £1.2 million in 2013 to £6.3 million during 2014.

One notable case involved an individual who invented fake companies and imaginary staff so that he could transfer £3 million worth of false payments and wages into 20 bank accounts, to fund a gambling addiction and to send money to his fiancée in Thailand. His actions were discovered by a colleague, but rather than report the crimes, this individual demanded a cut of the stolen funds – totalling £1.1 million – to keep quiet.

Hitesh Patel, UK Forensic Partner at KPMG, says: "The popular perception is that anyone discovering fraud would do the right thing and report it, but there is a risk that temptation might lead some people to adopt the mentality of 'if you can't beat 'em, join 'em'. Collusion makes the problem of spotting and stopping fraud that much harder. Having a strong ethical culture inside an organisation is a critical defence to combating white collar crime".

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Vulnerability

The latest figures also show that, for the first 6 months of 2014, the average case value was £2 million – a fall of 43 percent compared to that recorded between January and July 2013 (£3.5 million).

On the face of it, this sounds like good news, but history shows that fraudsters tend to start with smaller schemes, to test the system, with fraud value then increasing as their confidence grows if they are not caught.

The latest data shows, for example, that the increase in volume in the £1-10 million bracket was driven by a significant increase in insider fraud, with the number of employee-perpetrated frauds in this value range increasing more than ten-fold. One case study showing the trend for insider activity – and the youthful nature of conmen – revolved around a 24 year old bank clerk who attached a device to a computer within the branch he worked at. The device allowed fictional deposits worth £1.1 million to be made into 15 customer accounts, which were then withdrawn by the customers and a colleague – all of whom had been colluding with the ring-leader.

Patel adds: “Preying on peoples’ fears, or worse, creating fear where it doesn’t exist, is a tactic that conmen adopt when times are tough. They recognise that immediate physical and long-term financial safety are highly emotive concerns that can illicit ill-thought out reactions from victims. Pensioners in particular are seen by fraudsters as easier targets than others. Increased freedoms around pension investments mean they suddenly have their life’s savings available to them, but often are unclear where best to keep it safe. The key to beating fraudsters at their own game is to use support networks to check whether something is really as good an opportunity as it seems or as necessary to undertake as people are led to believe. The old adage that two heads are better than one is never truer than when trying to determine a trickster from someone genuinely able to help.”

Businesses at risk

Data compiled for the Fraud Barometer in recent years has shown financial institutions and Government bodies to be the biggest victims of fraud. However, the data for 2014 reveals that commercial businesses are gaining prominence once again. Analysis shows that the number of cases where companies fell victim to a scam rose from 64 to 107, with the value of frauds totalling £98 million compared to £76 million in 2013.

Patel concludes: "Fraudsters are making hay from the corporate and investor communities who are dropping their guard as we see an upturn in economic fortunes. But business and investors don't have to play 'the victim'. Instead, by improving governance and by remaining vigilant it is much easier to fight fraudsters, as prevention is better than Court."

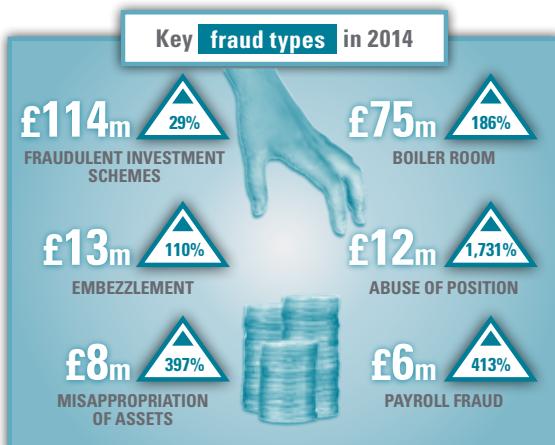
Case studies

- One case centred on two fraudsters who used their reputations as trustworthy pillars of the local community to create what became known as the 'G&T' scheme because of lavish drinking parties held to celebrate allegedly successful investments. Individuals were persuaded to hand over £3,000, invited to parties where some were presented with cash returns totalling more than £20,000, and tempted to invest more – creating a £21 million black hole.
- Another case focused on 14 pensioners who were targeted with emails claiming they had won millions of pounds in a non-existent lottery. They were instructed to pay fees to release their 'winnings', with losses totalling £900,000.
- One case, which cost victims a total of £5.3 million, centred on the trust between a Church Trustee and members of his parish. Widely respected because of his community work and senior role within a financial institution, the conman abused his community's faith by taking money meant for investment and using it for spread betting and casino gambling
- In another case, twin brothers defrauded more than 70 people out of £1.6 million. Their victims lost up to £110,000 each, after they were persuaded to invest in properties in Bulgaria and Cape Verde, when the money was in fact used to repay the fraudsters' business and personal bank overdrafts as well as on shopping sprees.

Fraud Barometer

A snapshot of fraud in the UK

Results are based on Jan-Dec 2014 data and are compared to the same period last year.



The regional picture

(from North to South)

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Scotland

In Scotland, the number of fraud cases involving financial institutions made up the majority of cases – increasing from £2m in 2013 to more than £6.7m in 2014.

Cases recorded in Scotland included:

- Three separate cases involving mortgage frauds in excess of £1m.
- A bogus sheep farmer and convicted fraudster was jailed for four years after using someone else's identity to persuade a finance firm to lend him £400,000 to invest in a phoney hotel and golf course scheme in Fife.
- A car salesman from Dumbarton was jailed for 20 months after embezzling almost £120,000 from business customers. He used the money to pay off gambling debts amassed via online betting websites.

Ken Milliken, Head of Forensic, Scotland, said: "Individuals who gave false information to acquire mortgages are now paying the price as banks and then police look to crack down on mortgage fraud. The numbers do not mean that mortgage fraud is on the increase but rather that investigation and enforcement activity is on the increase."

There are still many embezzlers and other con artists within this year's figures, opportunistically preying on the vulnerable or taking advantage of weaknesses in company controls. Because there will always be people willing to break the law for their own ends, the fight against fraud will never be won."

The regional picture (continued...)

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North East and Yorkshire

The number of cases coming to Court in the North East was steady, as values fell. In Yorkshire, the number of cases was up 58% year-on-year.

Cases recorded in Yorkshire and the North East included:

- In one case, also highlighted in the national picture, more than 70 people were defrauded of £1.6 million by brothers running a property investment company who used client funds to repay personal debts instead of buying them second homes overseas.
- In another case, a married couple posed as collectors for childrens' charities when in fact they used donations. The case was estimated that at least £121,000 was used to fund a luxury lifestyle
- An accountant who stole almost £200,000 from her employer and whose fraud only came to light after she left the business.



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Sara Smith, Forensic Senior Manager in the North East said: "The fraud landscape across the region has been dominated by opportunistic cons and thefts at sub £1 million levels, with a fall seen in activity by professional fraudsters. In particular there has been a rise in the number of employees finding themselves in a position to address debts or lifestyle aspirations at the expense of their employer."

Vivien Hopkins, Head of Forensic, the North East said: "The increase in fraud cases in this region stems from dramatic rises in activity by those in management and professional criminals. On the positive side however, at least the drop in case values means that victims were defrauded by less than £1 million on average, compared to more than £1.5 million last year."

The regional picture (continued...)

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North West

The number of fraud cases seen in the North West during 2014 increased by 76 percent from 29 cases in 2013 to 51 cases. Furthermore, discounting the Lexi Holdings case which singularly inflated 2013's figures by £104 million, the value of fraud cases also increased year-on-year by 21 percent from approximately £34.3 million in 2013 to £41.6 million.

Some of the high-profile cases recorded in the North West in the second half of 2014 included:

- A Rochdale man who became one of the UK's most wanted tax criminals for his role in a £28 million plot to smuggle low-grade cigarettes and counterfeit tobacco into the country;
- Four Burnley men who were part of an international syndicate that stole €7 million in EU carbon credits, which led to the temporary suspension of trade in the European market;
- Two separate cases involving ex-professional footballers. The first saw Gabriel Edwards, who once played for Wigan Athletic's second team, join a gang of cyber criminals to hack into bank accounts across the globe, stealing £130,000. The second case saw a former Oldham Athletic player steal the identity of Chelsea and France star Gael Kakuta in a £163,000 scam.

Martin Dougall, Head of Forensic, North, said: "The increase in fraud cases across the North West mirrors the national picture, with con artists increasingly hiding behind the cloak of respectability in order to perpetrate their crimes. Indeed, our research suggests that victims are increasingly being targeted because of their vulnerability, rather than their value, with a number of recent cases revolving around rogue trading and fake investment opportunities."

The regional picture (continued...)

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Midlands

Discounting an outlier case last year of £125 million, the value of fraud cases seen in the Midlands Courts increased by two thirds in 2014. The number of fraud cases heard in the region has dropped slightly by 3%. This has resulted in a significant jump in the average case value in the Midlands, which has almost doubled, up from £1.2 million in 2013 to £2.1 million in 2014.

Case Studies from the Midlands region include:

- In Leicester, a solicitor (40) was jailed for 10 years after stealing almost £1million in a stamp duty scam. He changed official records to reduce the amount of stamp duty due on 139 properties before charging customers the full amount.
- In Walsall, a man (25) was jailed for 33 months after recording Fast and Furious 6 in a Walsall cinema and selling copies from his Facebook page. His actions cost the film industry an estimated £2.3million.
- In Sutton Coldfield, a builder (50) was jailed for two years after stealing nearly £160,000 from customers across the Black Country. He took money for work that wasn't completed and failed to pay suppliers and contractors.

Simon Albrighton, Head of Forensic, Midlands, said: "The massive climb in the value of fraudsters' crimes shows that even though the number of fraud cases has remained steady in the Midlands, victims are in fact much worse off and being left even more out of pocket. The rise of professional criminals looking to scam vulnerable victims in the Midlands is on the rise, and the results reinforce the importance of having robust fraud detection systems in place."

The regional picture (continued...)

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London and the South East

London and the South East remains the UK's fraud hotspot with injured parties citing losses of over £482 million in local Crown Courts over the last 12 months, an increase of 13 percent on 2013. Over a third (39 percent) of all UK fraud by volume went to Crown Court in the last 12 months. There was a significant 36 percent rise in fraud against commercial businesses in the region worth around £55 million. The number of fraudulent crimes committed by under 26 year olds in the region was up by 40 percent in the last 12 months, accounting for £78 million of fraud.

Case studies from the London region includes:

- A case involving an accountant who promised neighbours and friends returns of up to 25 percent if they allowed him to invest their money. He conned victims out of £2.4 million, blowing the cash on gambling and an extravagant lifestyle, whilst using doctored bank statements to convince victims that their savings were thriving.
- A commercial port duped out of £2.6 million when they were contacted by fraudsters purporting to be one of their suppliers who advised of a change in banking arrangements. The account takeover fraud continued for six months undetected.

Chris Wheeler, Head of Forensic, London region said: "The Fraud Barometer shows that the cost of fraud continues to rise across London and the South East.

Unfortunately however, the losses reported through criminal trials is likely to be just the tip of the iceberg when considering the full and damaging cost of fraudsters' activity. The burden of proof in criminal proceedings remains 'beyond a reasonable doubt'. That burden reduces to 'balance of probabilities' through the civil courts and as a consequence, successful fraud civil recoveries might never be tried before a Crown Court. Then of course there are the other costs associated with damaged reputation, disruption and human capital.

Any business in London and the South East that ignores this rising cost will end up contributing to it. Fraudsters are operating in local organisations right now. They thrive when ignored. Don't make it easy for them."

The regional picture (continued...)

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South West and Wales

Fraud in the South West totalled £33.6 million in 2014. This was up 127% on 2013's figure of £14.8 million. The number of cases also soared by 136% to 33, up from 14 in 2013. Professional criminals were the biggest perpetrators of fraud, committing 70% of fraud in the South West. Commercial businesses in the South West were the most commonly targeted by fraudsters, accounting for more than a third of cases (39%) with 52% of such frauds committed by employees or the management of the business.

Fraud in Wales totalled £16.2 million in 2014. This was up 255% on 2013's figure of £4.6 million. However, the figures were distorted by two cases, one involving a £5 million mortgage fraud, and the other an alleged VAT fraud which reached the courts in 2014 and amounted to £5m. Together these two cases accounted for two thirds of the total value of fraud cases tabled in the Welsh courts. The data also revealed that company employees and management were the most frequent perpetrators of fraud, committing 46 percent of fraud in Wales.

Case studies from the South West and Wales region includes:

- A charity finance manager who secured the position using falsified references when applying through an agency. Once in position the perpetrator defrauded over £130,000 by falsifying invoices and paying the money into her own accounts.
- A case, prosecuted by Bristol Crown Court, centred on a pyramid selling scheme that generated £21 million, and cost around 10,000 victims thousands of pounds in savings.

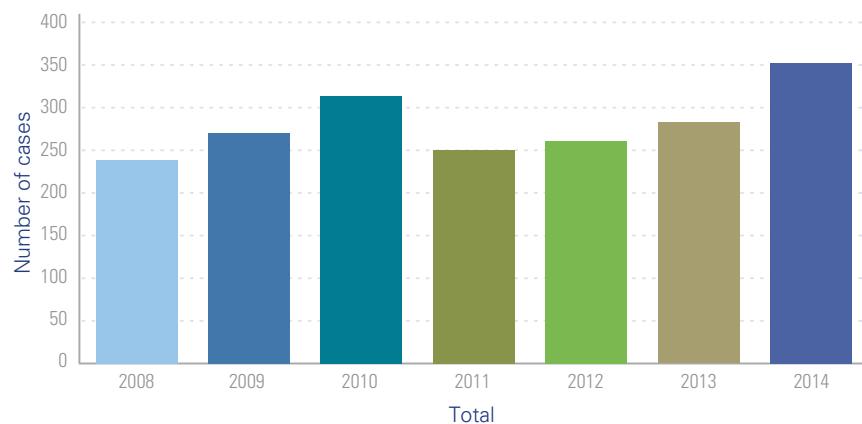
Akhlaq Ahmed, Head of Forensic, South West and Wales, said: "Dealing with internal attacks can stifle growth. As well as the financial cost to the business, there is an opportunity cost as management time is spent dealing with the attack and its repercussions rather than focusing on running the business and achieving its goals. Both of these costs are not welcome at the best of times, let alone when businesses are struggling to compete in today's economic environment."

The high level of fraud by employees and management demonstrates that there is still a significant threat that comes from those who know the business intimately and can use this information to their advantage. We have seen a prolonged period of low wage growth coupled with a high cost of living. This has tempted some to put their hand in the till so they can live the life they have become accustomed to. As well as financial personal debts and everyday expenditure, there are a number of other motivations to commit fraud: funding a gambling habit, paying for a lavish lifestyle or just pure greed."

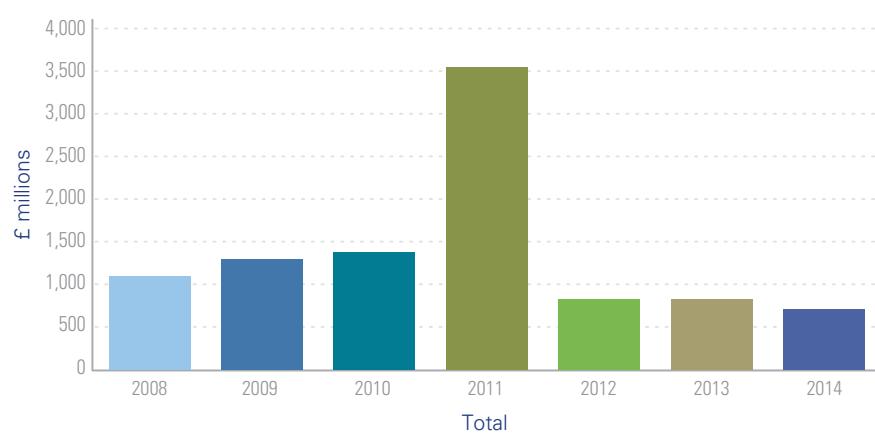
The historical picture

Trend in total fraud

Total fraud volumes by year (2008 – 2014)



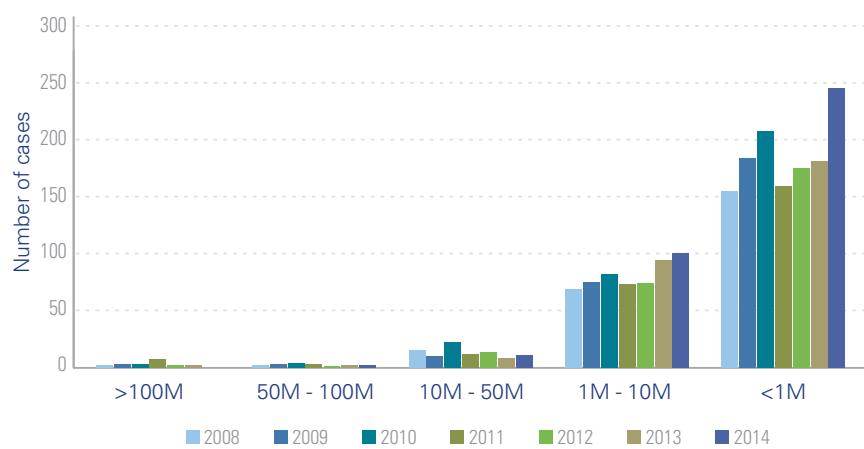
Total fraud value by year (2008 – 2014)



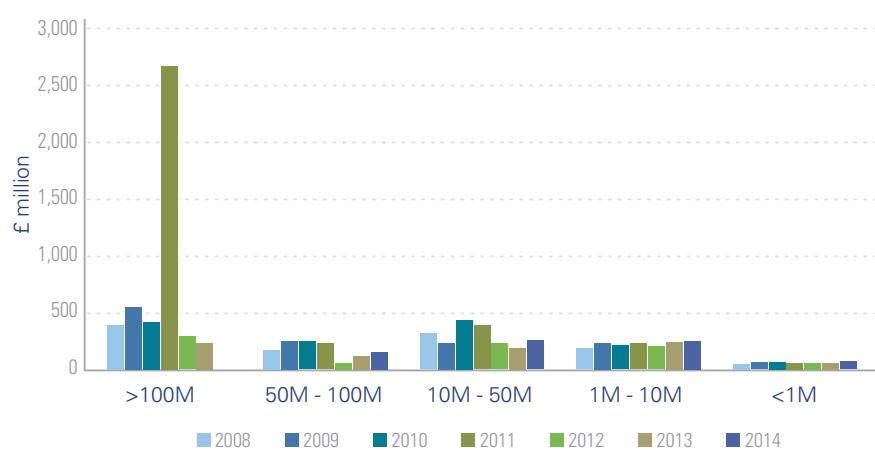
The historical picture (continued...)

Trend in case values

Total fraud volumes by year (2008 – 2014)



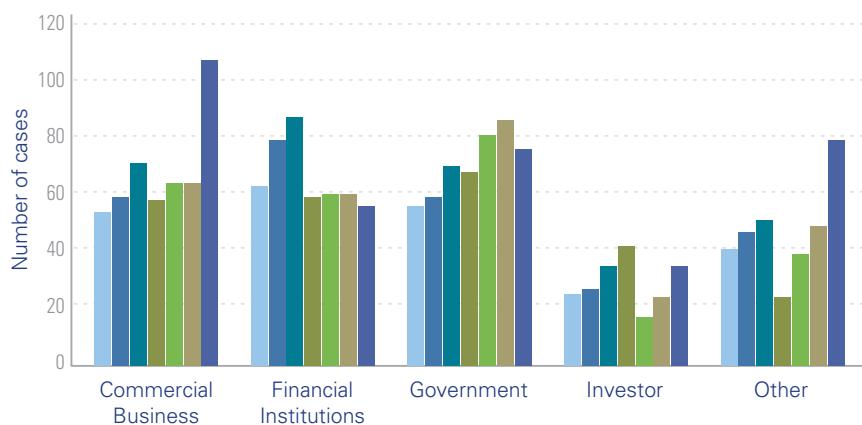
Total fraud value by year (2008 – 2014)



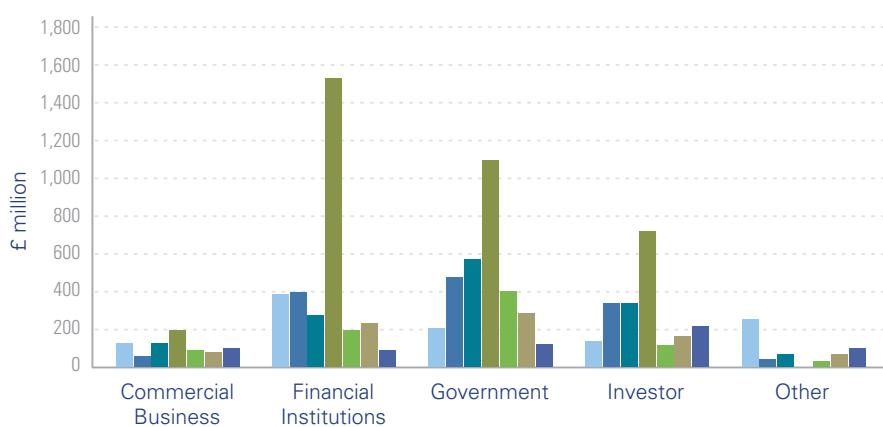
The historical picture (continued...)

Trend in the victims of fraud

Fraud volume by victim (2008 – 2014)



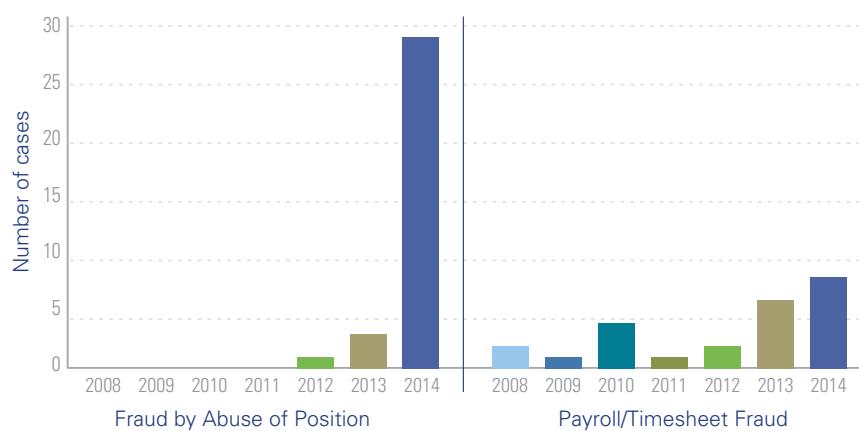
Fraud value by victim (2008 – 2014)



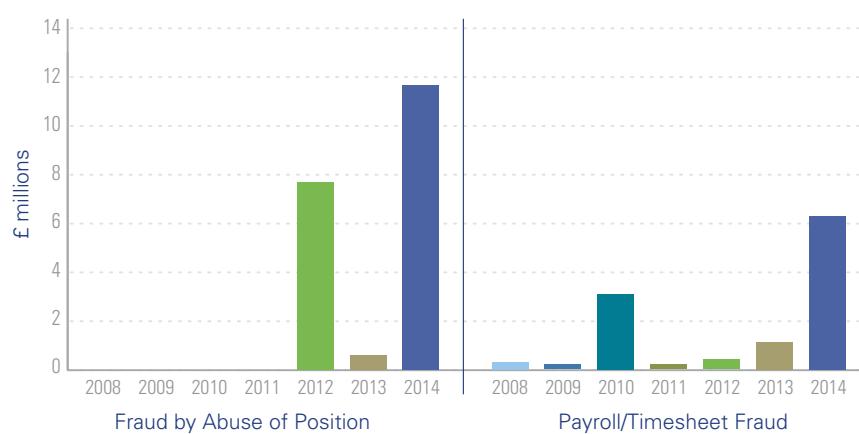
The historical picture (continued...)

Trends for selected case types

Fraud volumes for selected case types (2008 – 2014)



Fraud values for selected case types (2008 – 2014)



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