



Organised fraud in local communities

BRIEFING 1

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Key Messages

- *From a sample of frauds committed in two police force areas we found that between a third (31 per cent) and nearly half (45 per cent) of all frauds occurring locally are linked to Organised Crime Groups (OCGs), which is at least twice previous Home Office estimates.*
- *On average, individual victims of organised fraud lose over £10,000 per fraud offence, which amounts to nearly half their annual income, compared with victims of non-organised frauds, who lose on average about £4,000.*
- *Victims of investment frauds perpetrated by OCGs lose, on average, 137 per cent of their annual income to organised fraud, four times more than the victims of non-organised investment frauds.*
- *OCGs involved in fraud often operate outside the UK and the response from law enforcement agencies is ineffective.*
- *Local agencies only work together on an ad-hoc basis and systematic data sharing is virtually non-existent.*
- *The local response to fraud needs a complete overhaul if future generations are to be protected from the harm it causes.*

Introduction

Fraud is on the rise and is being conducted on a prodigious scale across the UK. The Home Office has identified fraud committed by organised crime groups (OCGs) as a major threat in the UK; however the nature and extent of the links between the two has been unclear. In 2012 the National Fraud Authority (NFA) estimated that out of 7,503 OCGs in the UK, 1,365 were linked to fraudulent activity¹. Based on this figure, the Home Office estimates that at least 15 per cent of all fraud in the UK is organised², although it has long suspected that this figure is a significant underestimate.

One reason these figures are an underestimate is that many offenders commonly reside overseas and are unknown to UK law enforcement agencies. Furthermore, the very nature of fraud means that one fraudster can disproportionately affect hundreds of victims in ways that more traditional crimes cannot, so the estimate tells us nothing about the scale of impact.

The extent to which fraud is linked to organised crime has significant implications when considering how best to respond to the threat, and in particular will have repercussions for how organised crime

¹ National Fraud Authority (2013) *Annual Fraud Indicator*. London: National Fraud Authority.

² Mills, H., Skodbo, S., and Blyth, P. (2013) *Understanding organised crime: estimating the scale and social and economic costs*. London: Home Office.

resources are allocated by law enforcement agencies.

The Police Foundation and Perpetuity Research completed a two-year study which assessed the scale, nature and impact of serious organised crime on local communities.

Aims and methods of the research

The research on fraud had two main aims:

- To estimate how much fraud occurring in local communities is perpetrated by OCGs.
- To assess how organised fraud impacts on local victims and communities and review how effective the current local response is.

Fieldwork was undertaken in three cities in the Avon and Somerset and West Midlands police force areas. A series of interviews were conducted with the police, the National Fraud Intelligence Bureau (NFIB), the National Crime Agency, Trading Standards, and other local agencies.

To address the question of how much fraud occurring in local communities is perpetrated by OCGs, a sample of 731 fraud reports (from the two police force areas) recorded by the NFIB were analysed.

From these 731 reports, seven different categories of fraud were identified as occurring locally.

1. Identity fraud

Frauds which use methods and techniques to steal and/or use a victim's bank or financial details.

2. Fraudulent sales

Frauds which occur when the victim tries to buy or sell goods or services. Often (although not always) through online auction and selling websites.

3. Mass-marketing fraud

Frauds which contact with victims via email, letter, phone or advertisements. These frauds exploit mass communication in the hope of reaching as many victims as possible.

4. Fraudulent sales in person

Frauds occurring primarily when victims buy or sell goods or services in person. Particularly impactful upon small businesses.

5. Abuse of trust

Frauds involving suspects who specifically play on the trust of a victim and use their authority (either within a company or within society) to take advantage of individuals, systems and processes, for personal or financial gain.

6. Fraudulent applications

Involves perpetrators who deliberately misrepresent themselves or their situation for personal gain. This includes individuals who lie on application or claim forms, or make use of counterfeit documents.

7. Investment fraud

Frauds involving the investment or movement of large amounts of money. These frauds often rely on high-pressure sales techniques to persuade victims to make quick and risky decisions.

A set of criteria were used to estimate the scale of fraud linked to organised crime within this sample. The criteria included:

- Whether the fraud was perpetrated by a known OCG.
- Whether multiple offenders were involved.
- Whether the criminal activity was coordinated on a continuing basis.
- The level of seriousness (determined by the financial loss).
- The level of professional expertise and technical skills used in commissioning the offence.

Each of these criteria was given a different weighting, with some criteria deemed more important than others. Based on the application of these criteria a **lower** and more stringent **upper**

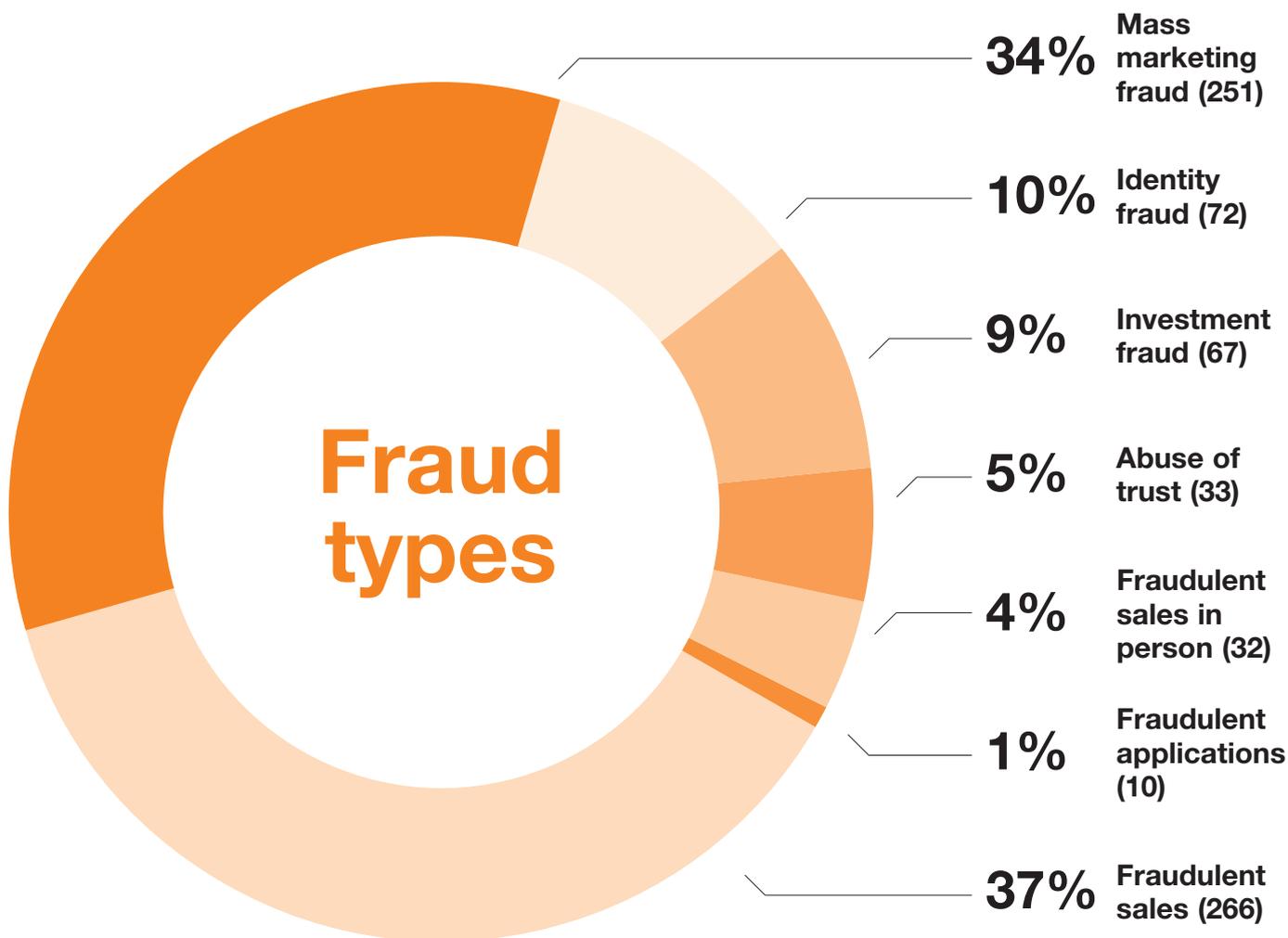


Figure 1. percentage of fraud incidents in the sample, broken down by fraud category

threshold was applied to each fraud incident to produce a robust estimate of the overlap between fraud and organised crime.

An analysis was also conducted on the sample, to establish whether fraud incidents were likely to be linked to other frauds recorded in the UK. For example, the use of the same phone number or email address would indicate that two frauds were committed by the same offender(s).

Figure 1 shows the prevalence of each fraud category, with *fraudulent sales* and *mass-marketing fraud* making up over 70 per cent of the recorded cases.

Key findings

The scale of organised fraud

Our analysis showed that between **31 and 45 per cent** of all frauds occurring locally were linked to

OCGs. Figure 2 overleaf shows how this varied across the different categories of fraud. *Investment fraud* was most likely to be linked to organised crime, with 69 to 70 per cent estimated to be perpetrated by OCGs. Between a third (38 per cent) and over half (59 per cent) of *mass-marketing fraud* is estimated to be linked to organised crime.

A significant proportion of organised fraud occurring locally was found to be perpetrated by OCGs residing overseas. Many forms of *mass-marketing fraud* and *investment fraud*, for example, were almost exclusively perpetrated by overseas offenders. In contrast, *fraudulent sales in person* and *fraudulent applications* were more likely to be committed by OCGs located within the UK.

The financial impact of organised fraud

On average, individual victims of organised fraud were likely to lose significantly more money per

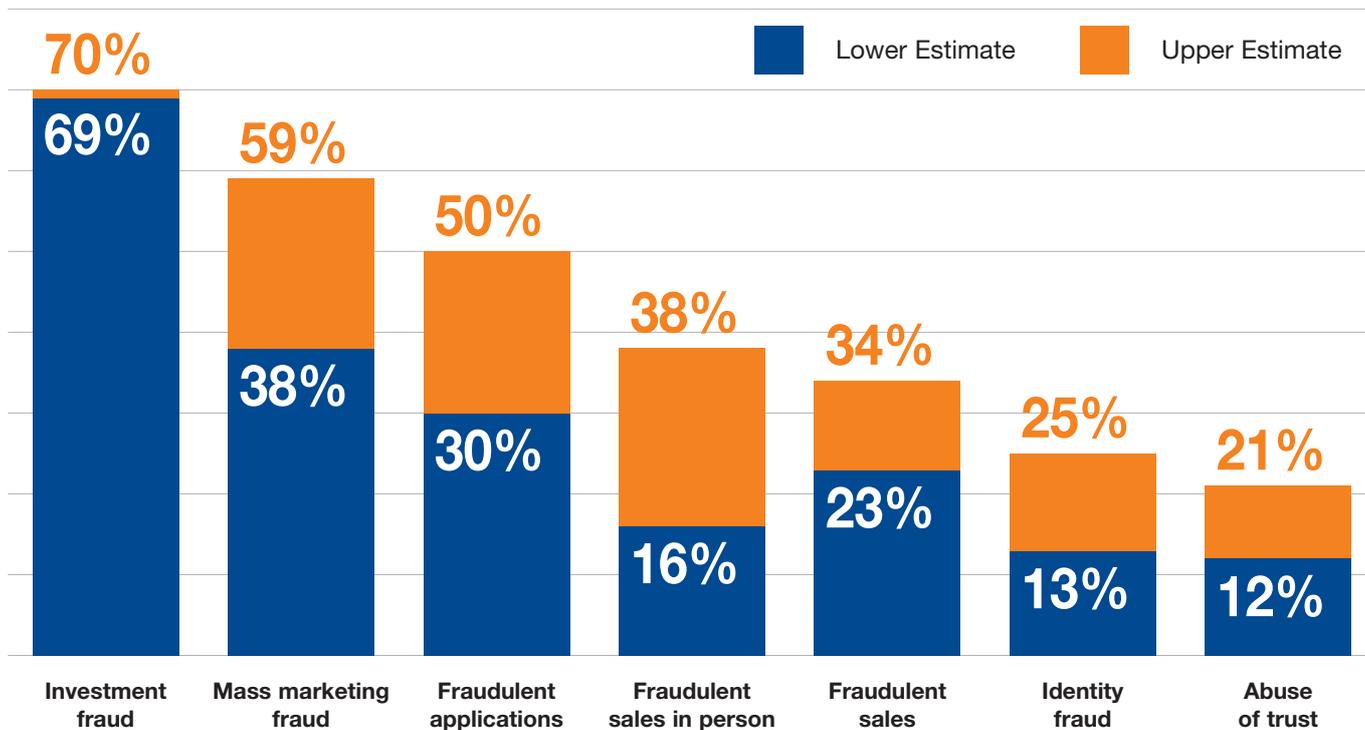


Figure 2. proportion of different frauds linked to organised crime

fraud offence (£10,260) than victims of non-organised fraud (£3,982). This disparity of financial loss was especially pronounced for *fraudulent sales in person*, where victims of organised fraud lost an average of £19,125, compared to £546 for non-organised frauds.

The impact of this financial loss upon victims however is highly dependent on their income level or savings; a £500 loss may be relatively minor for some, yet devastating for others. The relative financial harm from organised frauds was therefore

compared to non-organised frauds using ONS annual income data to estimate the financial loss from each fraud as a proportion of a victim's income. This showed that an average individual victim of a fraud perpetrated by an OCG was likely to lose 48 per cent of their annual income, compared with 17 per cent for non-organised frauds. This impact was particularly pronounced with investment frauds, where victims on average lost 137 per cent of their yearly income to organised fraud, compared to 35 per cent for non-organised frauds. Table 1 provides a complete breakdown.

Table 1. average loss as a proportion of a victim's annual income for organised vs. non-organised fraud

Fraud Category	Average loss as a % of Annual Income	
	Non-Organised	Organised
<i>Abuse of trust</i>	58%	13%
<i>Investment frauds</i>	35%	137%
<i>Fraudulent sales in person</i>	2%	86%
<i>Fraudulent sales</i>	4%	10%
<i>Mass marketing fraud</i>	4%	4%
<i>Identity fraud</i>	9%	1%
Average	17%	48%

The response to fraud

Our review has shown that the response to organised fraud does not come close to matching the scale of the problem and the harm it causes.

There are a number of barriers that make organised fraud difficult to tackle, the most challenging of which is that the offenders frequently reside overseas or across police force borders and are therefore difficult to pursue. Law enforcement agencies seem uncertain about how to shift towards placing more emphasis on the 'Protect' and 'Prepare' strands of the government's organised crime strategy³. Unlike

³ See <https://www.gov.uk/government/publications/serious-organised-crime-strategy>

traditional crime types such as burglary and vehicle crime, victims who report a fraud rarely receive a visit from a police officer or any other official.

There are many agencies holding a wide range of powers which could bolster the local response to organised fraud, however at present these agencies only work together on an ad-hoc basis and systematic data sharing is virtually non-existent. Given the complexity, the expense and the low success rate of fraud investigations, a more problem-oriented, multi-agency approach would, we believe, be more effective.

Despite being widespread, nobody owns the problem of organised fraud at the local level. Fraud is rarely prioritised, local practitioners have little appetite (and arguably, the capability) for dealing with it, and most neighbourhood police officers see fraud as, *'beyond their remit'* and/or the responsibility of Action Fraud⁴.

Action Fraud receives on average 25,000 reported frauds per month, which based on our estimates means that between 7,000 and 12,000 reported frauds could be perpetrated by organised criminals every month. In practice, only a small proportion of these incidents are ever investigated by forces. Furthermore, forces are not systematically recording the outcomes of fraud investigations and are therefore not being properly held to account.

Currently resources for tackling OCGs are determined by whether they are officially 'mapped' by police forces. Because organised fraudsters frequently live overseas they are unlikely to be mapped; in this study no OCGs were mapped in relation to organised fraud. Given the relative harm that fraud causes, this lack of specialist resource needs to be addressed.

Conclusions and recommendations

This study has estimated the proportion of fraud linked to organised crime, and the financial impact it has, using an entirely data driven approach. The findings demonstrate that between **31 and 45 per cent** of fraud occurring in the local areas we looked

at is committed by OCGs, three times higher than previous Home Office estimates. This fraud is also more financially harmful than non-organised fraud. While the study has, for the first time, attempted to assess the nature, scale and impact of organised fraud on local communities, the gaps in knowledge are too vast to be tackled by a single review and due to limitations with data quality and the rigorous criteria applied, it is also likely that these figures are an underestimate.

Despite its increasing scale across the UK, fraud does not currently get the recognition it deserves and tends to fall between the gaps of a number of agencies, including the police. In light of the new evidence that a significant proportion is committed by persistent, serious and organised offenders, a number of questions are raised about who should be responding to it, and how this response should be resourced and improved.

Fraud is placing an increasing and changing demand upon the police. While the organised fraud offenders are difficult to prosecute it is clear that there are vulnerable victims to safeguard, communities to protect, and crimes to be prevented. Therefore, it is more important than ever to ensure that agencies and authorities do not relinquish their responsibilities in tackling it.

This work is one component of a wider research project looking at organised crime and its impact on local communities. Further papers, as well as a single consolidated report, are scheduled for publication this year.

The Police Foundation is very grateful to the Dawes Trust for funding Reducing the Impact of Organised Crime in Local Communities project.

⁴ Action Fraud is the UK's national fraud and cyber crime reporting centre. See <http://www.actionfraud.police.uk>



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