



Fraud Risk

Thursday 27 May 2010, Manchester Town Hall

This session on a perennially interesting topic had been carried over from January when the meeting had to be cancelled due to very bad weather conditions (though we decided to drop the round table and Chinese dinner). Luckily, most of our speakers were able to make the rearranged date, though we did have one drop out at the last minute. This reminded us that we are very dependent on our speakers. They provide their services for nothing and often go to considerable trouble on behalf of our audiences. We owe them a great debt, and have to accept the occasional problem.

The meeting took place in one of the impressive committee rooms at Manchester's Waterhouse Town Hall. We are very grateful to Manchester City Council for making the room available when the previously arranged room turned out to be double-booked. The lunch was sponsored by Risk Solutions, the risk consulting practice, and we are very grateful to them too for their constant support.

The presentation slides are on the IRM website alongside this note, which provides a brief summary of the meeting (with the responsibility for any errors or misinterpretations being mine alone!).

First up was Steve Jackson from the North West Fraud Forum and Zurich insurance. He described the extent of fraud risk and the amounts thought to have been lost: at least £30bn annually of which maybe £2bn is insurance fraud (£44 per premium!). Of course these figures only represent what is known about and the actual amounts could be much higher. Fraud forums, of which there are 8 in the UK, aim to help raise awareness and also help prevent fraud. In general the risk is tackled by taking away the opportunity to defraud; the affected organisations taking ownership of the risk; having an appropriate culture; implementing response planning and awareness training; identifying and reporting fraud; investigating it and finally ensuring prosecution. A notable success was achieved when a local authority challenged all claims received. Simply asking for and confirming more details made 85% of the claims go away.

Following this, Mark Babington from the National Audit Office provided an overview of the fraud problem for Government. He emphasised that fraud is a business with a certain risk-reward profile and people commit fraud because they think it is worthwhile: the risk is not that bad. Two issues which affect government are silos, with the risk management campaign being run remotely from HMT, and a political imperative to get money out of the door. One of Mark's proposals to improve this situation is a fraud impact assessment for each new policy, similar to the assessment required for new safety legislation. Two examples of fraud-vulnerable activities



are personal care budgets, where there are no controls to ensure the money is spent prudently, and EU rural development grants administered by small local agents, again with no controls. Overall Mark felt that much more attention should be paid to the fraud issue, focussing less on compliance and more on effective controls with a better understood appetite for fraud risk.

First after lunch was Roy Paul from the DWP. Roy had been working on fraud in the benefits system since the 1970s so he was able to give a good overview of the trends. The 2.2% of the £100bn paid, which 'goes astray' was estimated to be made up of 0.8% fraud, 0.8% customer error and 0.6% official error. Up to 1998 the emphasis had been on fraud detection rather than error detection - on finding rather than preventing fraud; stopping fraud had not been an integral activity in DWP and was based on poor information. Since 1999 the approach has changed to one of safeguarding social security with risk-based checks, more direct payment and data matching. Key activities are the national benefit hotline, advertising, data matching, tougher sanctions, and investigation abroad. There is also more surveillance today, using sophisticated vehicles and the like and close cooperation with HMRC and local authorities. To give an idea of progress, the fraction of people who think it is wrong to commit benefit fraud has increased from 20% in 1998 to 90% in 2007 as a result of awareness campaigns. In parallel, there is also a big reduction in the in the number of people who think it is easy to get away with benefit fraud. Roy concluded with a very public case study in which a disability benefit fraudster was imprisoned and lost his house. Such cases are very influential.

The last presentation was by Martin Baldwin from Greater Manchester Police who said the purpose of investigating fraud was to deter and to detect other crimes: there is a big link between organised crime and fraud. Although we will never eradicate fraud, we need to reduce the risk: the main aims are to make it more difficult and educate people more. In 2009 fraud increased by 9% with a 32% jump in identity fraud. The way forward comprised: continued joint approaches by organisations and individuals; attempting to identify potential issues, for example by visiting companies on spec; identifying new fraud processes; new legislation and exploiting the Proceeds of Crime Act, a good piece of legislation which moves us from unenforceable compensation to enforceable confiscation.

The meeting was summarised by Mike Robertson of Risk Solutions who had chaired the day.

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