



Fraud Barometer 2018

A snapshot of Fraud in the UK

January 2019

KPMG LLP

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Welcome

Welcome to the latest edition of the annual KPMG Fraud Barometer report, which provides an analysis of the data covered in the bi-annual releases of 2018.

The bi-annual KPMG Fraud 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 – and so we hope you find this report insightful, interesting and useful.

We also encourage you to contact us if you have thoughts or questions about the trends identified in the report (or the wider issues raised by fraud).

The KPMG Fraud Barometer is the longest running survey of its kind in the UK with data spanning over 30

years. It considers major fraud cases being heard in the UK's Crown Courts, where charges are in excess of £100,000.

The KPMG Fraud Barometer team is headed up nationally by James Maycock, and supported by the following regional leads: Graham Cochran (Scotland), Sara Smith (the North East and Yorkshire), Damien Margetson (the North West), Julie Bruce (the Midlands), and Damian Byrne (the South West and Wales, and the South East and London). Details of the national KPMG Fraud Barometer team can be found at the back of this report.



KPMG's Fraud Barometer annual reports provide analysis of the national picture over the year. They also look at the historical picture and regional trends with commentary from our Forensic Leads across the UK.

James Maycock
Partner
KPMG Forensic





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The national picture

Insurance scammers and rogue tradesmen help to drive £1.2 billion in UK Fraud during 2018

The number of fraud cases reaching courts in the UK rose by 78% in 2018.

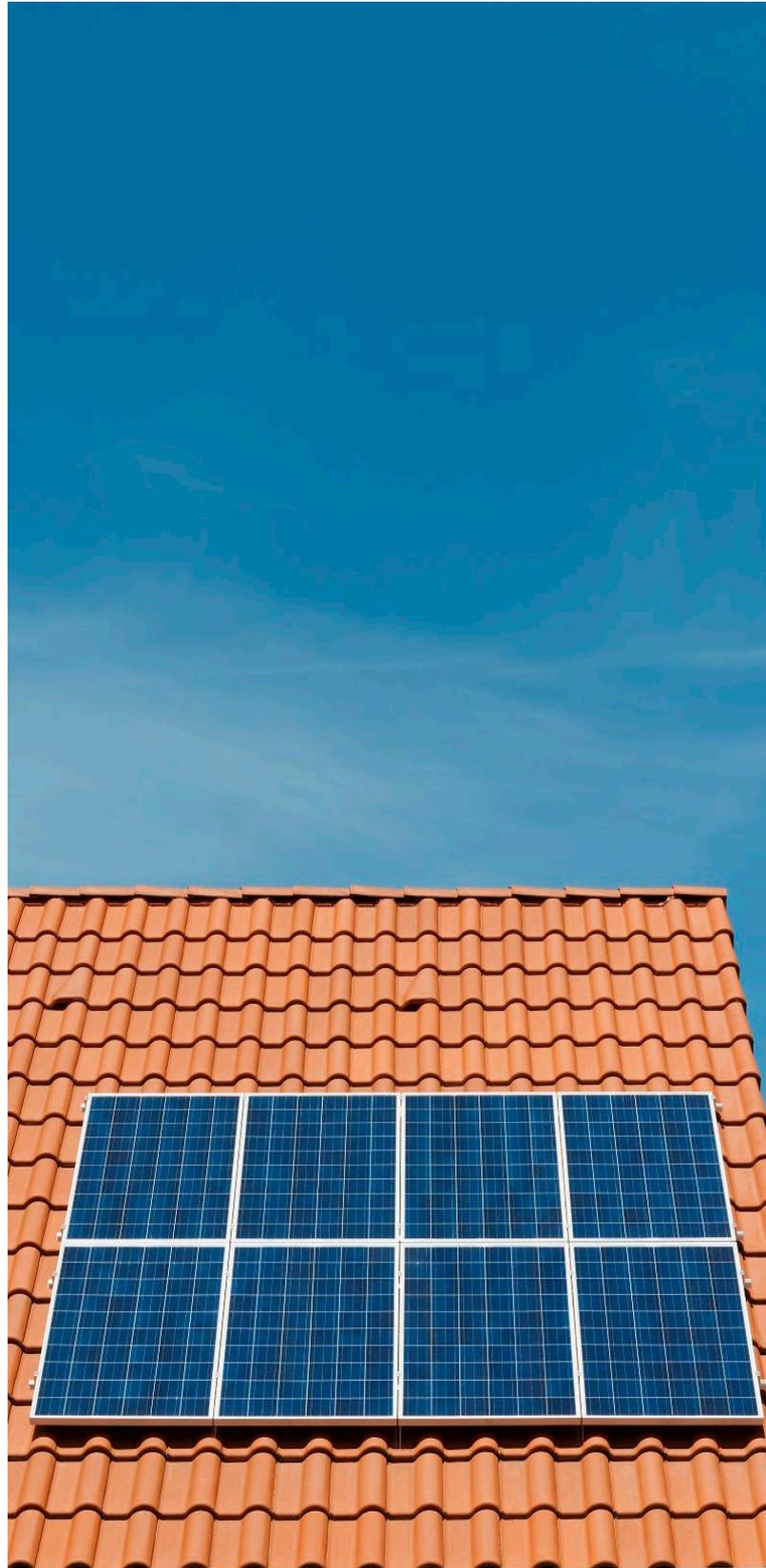
KPMG's Fraud Barometer, which records cases of alleged fraud with a value of more than £100,000 found that 453 cases with a total value of £1.2 bn came to court across the UK last year. The barometer includes one supercase (a case greater than £50m). However, there are a large volume of cases valued between £10 million and £50 million covering areas such as evasion of duty, VAT fraud, investment fraud, loans and mortgages, counterfeit goods, pensions and social benefits.

Some highlights from the year were:

- The volume of fraud cases hitting UK courts was up by 78%;
- There was an increase in the volume and value of insurance fraud cases hitting court in 2018; and
- There was an increase in the volume and value of rogue tradesmen fraud cases hitting court in 2018.

"In the round, fraud was a diversified portfolio this year. Fraud levels in the UK continue to rise as criminals look for new ways to exploit both public sector and private sector fraud opportunities. Sophisticated technology and social engineering has become closer to the norm for 'professional' criminals - for example, the number of cases of 'account takeover' frauds in the Fraud Barometer has more than doubled from 13 cases to 34, with diversion fraud, identity theft and push-payment fraud being the most common methods. Getting the large, often cross-border and complex frauds to court is both time-consuming and resource intensive. This places much more emphasis on businesses and consumers to protect themselves from a growing number of fraudsters who will take advantage given the opportunity."

James Maycock, Partner. KPMG Forensic.



Insurance fraud value up

The barometer identified an increase in the value of insurance frauds hitting courts in 2018. Overall, £17 million of alleged insurance fraud appeared in UK Courts over 19 cases in the last year, compared to 24 cases with a combined values of £11.9 million in the preceding four years of 2014-2017. Cash for crash, personal injury scams and faked death claims featured multiple times in the list of frauds coming to Court.

One case saw a man who masterminded a £4 million bogus insurance claim scam jailed for 9 years. The scam involved orchestrating 250 collisions with innocent drivers, mainly on mini-roundabouts, making claims against dozens of insurance companies for fabricated injuries or vehicle damage. The judge was very clear in stating that all insurance customers will pay for the fraud through higher premiums.

“Insurance fraud has a massive impact on many people: the victims, insurance companies and of course everyone else who is left to pick up the cost through higher insurance premiums. Despite the progress that has been made, particularly with the number of people now using in-car technology to record events in real time, fraudsters will continue to come up with new and improved ways to scam the system.

“Insurance scams are no longer the domain of claiming for a ‘lost’ camera on holiday, but like many areas of fraud have turned into a very lucrative income stream for professional criminals. The increase in professional insurance scammers coming to Court goes to show the complexity of the task that the industry is tackling. Fraudsters will move quickly to new methods and exploit any area they can, staying ahead of them is a difficult challenge.”

James Maycock, Partner.
KPMG Forensic.

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The increase in professional insurance scammers coming to Court goes to show the complexity of the task that the industry is tackling

Rogue tradesmen have their eyes on the big prize

In another emerging trend, 2018 saw a large increase in the value of fraud cases coming to Courts involving rogue tradesmen. Historically the vast majority of fraud cases involving fraudulent repairmen, builders and roofers have been below the £100,000 threshold to appear in the Fraud Barometer, but the value of the frauds taking place in this area is growing rapidly as gangs target the vulnerable for as much as they can squeeze. In 2018 there were 18 cases with a value of £7m, where mostly elderly homeowners were targeted and scammed of their life savings.

In one case, a number of cowboy builders, who took turns in defrauding an 83-year-old woman until they had conned her out of her £290,000 home and more than £100,000 in cash, were jailed for a total of 14 years. One of the gang defrauded her out of £28,500 for 'underpinning', whilst fake work was done to rafters for £29,000. Eventually one of the conmen convinced her to settle her bill by selling her £290,000 house to him for just £25,000, telling her that she could live in the house for the rest of her life while he took care of it. She had lived alone at the address where she had resided all her life and had been left the house by her parents.

"Whilst many fraud attacks take place with a perpetrator behind a computer screen who never actually gets to meet a victim, frauds by rogue traders are done very much face-to-face, where the fraudster will often meet or be welcomed into the home of their victims. It is often elderly people who are targeted, many spending their life savings on sub-standard, dangerous work that never gets completed.

"The personal nature of this fraud often leaves victims feeling very distressed and foolish, and many will never recover financially or emotionally from the deceit. There are things people can do to protect themselves and their vulnerable friends and relatives from rogue tradesmen, particularly never parting with money up front, not welcoming uninvited callers into homes (even if they have 'spotted' something that needs fixing), and asking for ID and checking if they are registered tradesman."

James Maycock, Partner. KPMG Forensic.

It is often elderly people who are targeted, many spending their life savings on sub-standard, dangerous work that never gets completed.

Customs under attack as Brexit looms

Around £89 million of duty evasion was recorded in the Fraud Barometer for 2018, the highest value recorded, with the number of fraud cases relating to tobacco products more than doubling in 2018 from 16 to 41.

Cross-border smuggling is also one of the largest fraud types coming to Court – the most common goods were counterfeit pharmaceuticals and pirated digital media.

MTIC or “carousel” frauds, complex frauds which took advantage of a change in multi-jurisdictional tax laws, have been one of the biggest drivers of fraud recorded in the three decades of the Fraud Barometer, and have cost the UK public finances an estimated £25-30bn. With new customs arrangements potentially coming into play post-Brexit, the potential for professional criminals and misguided businesses to exploit or abuse untested technology or tax collection mechanisms is not insignificant.

“How Brexit will impact fraud levels is yet to be seen, but new systems and new landscapes, such as new tax and customs arrangements, have in the past opened new and lucrative loop holes ripe for the picking from unscrupulous criminal gangs and businesses looking to improperly cut their costs.”

James Maycock, Partner.
KPMG Forensic.



Scotland

Employee fraud accounts for over 50% of fraud in Scotland

The most substantial fraud cases recorded in Scotland this year came from within organisations, with more than 50% of fraud losses perpetrated by staff.

While professional criminals were responsible for three of the £4.6m worth of cases coming to Scottish courts, the far greater threat came from employees and management, who perpetrated up 11 of the 16 cases.



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“Scotland’s fraud landscape has changed dramatically over recent years. The pace of innovation has made complex, technology-driven scams more accessible to fraudsters, and yet there still remains a threat from insiders. Businesses need to be aware of the insider threat and recognise that fraud is not something which only happens to other organisations.”



Notable cases in Scotland include



A junior clerk embezzled £600,000 from a financial services company over 14 years to fund lavish holidays across the world, including a nine-week trip to the Far East, cruises to the Caribbean and the US. The junior clerk identified policies where payments had been returned or where the policyholder had died and diverted payments to himself.



An accounts assistant for a biotech firm stole £116,000 to buy his terminally ill mother a house. Sums that were labelled refunds to the NHS were funnelled into bank accounts controlled by himself and his mother. He was caught after a tip off and he has been forced to sell the house to repay the funds which were embezzled.

North East and Yorkshire

Yorkshire and North East fraud cases more than double to 54 in 2018

The number of fraud cases reaching courts in Yorkshire and the North East has more than doubled in the past year. With the number of cases recorded in 2018 up to 54 from 21 in 2017. Similarly, over the same period, the value of fraud cases rose from £32.7m last year to £62.8m.

During 2018, evasion of duties and account takeover or payment transfer fraud were the most common offences. Meanwhile, investment fraud took the largest share of the total value of fraud, accounting for £26.3m.



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“There has been an incredibly diverse range of fraud activity hitting local courts over the past year, covering nearly 20 different types of offence – from cigarette smuggling to investment scams. The common thread between them is that fraud can have a significant impact on people’s lives, take much needed funds from tax revenues and put an enormous strain on businesses. As cases get more complex and daring, but also become more frequent, private and public sector organisations and individuals in the region need to take proactive steps to protect themselves.”

Notable cases in the North East and Yorkshire include



Sheffield Crown Court has demanded that two fraudsters from Halifax repay approximately £750,000 to victims of a sophisticated fraud which involved selling stolen goods online.



A property developer in Bradford will have to pay more than half a million pounds back to victims or face prison after being found guilty of using funds from investors to pay for his own luxury lifestyle.



A man in Hull was jailed for five years for his part in a major cigarette smuggling operation, which defrauded the UK taxpayer of more than £670,000.



A businessman from Leeds was jailed for nine years after being caught in a sophisticated £10m VAT fraud case that fuelled a glamorous lifestyle in Marbella.



A gang of tobacco smugglers from the North East was jailed after an HMRC investigation into duty evasion on 12 million cigarettes, worth £3.6m in unpaid duty and VAT.



A charity boss was jailed by Newcastle Crown Court after diverting more than £700,000 of the charity’s cash to his own bank account.



Fraudsters were jailed in Newcastle after scamming a college and training charity out of hundreds of thousands of pounds by creating fictitious clients and then charging the college fees for providing them with training

North West

North West fraud value triples in value to £131m, number of cases almost doubles

The value of fraud cases at courts in the North West has more than tripled over the past year.

The value of fraud cases recorded in 2018 is £131m, up from £38.5m in 2017. Over the same period, the number of cases being tried in the region's courts rose from 29 in 2017 to 57.

During 2018, evasion of duties was the most common offence. The ten cases recorded for this type of tax fraud accounted for more than half of the value of total fraud activity and were worth £63.4m combined.



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"A considerable proportion of activity going through local courts concerned fraudsters targeting HMRC and evading duties and tax responsibilities for their own gain. To put it simply, this means that it is North West taxpayers who have been the biggest victims of fraud this year.

"As cases get more complex and daring, but also become more frequent, it is little surprise that there was such a diverse range of fraud activity happening in the North West, from benefit cheating to embezzlement and identity theft. It shows that both businesses and individuals in the region need to take proactive steps to protect themselves."

Notable cases in the North West include



Two men in Merseyside were jailed after being caught with millions of smuggled cigarettes worth nearly £2m in unpaid taxes.



A woman in Burnley was handed a 20-month suspended sentence after defrauding the UK taxpayer out of £105,000 over five years after being caught claiming tax credits and tax benefits fraudulently.



A man in Bolton was jailed for conning customers at his high-performance car business with some customers losing out on as much as £500,000.



A finance manager was jailed for four years after stealing hundreds of thousands of pounds that was marked for charity donations from his employer, a construction business in Bolton, so he could put a deposit on a new house and pay for pedigree kittens and holidays.



A conman from Stockport was jailed after pleading guilty to charges of conspiracy to commit fraud by false representation and money laundering in a case that targeted banks and exploited a system designed to refund genuine businesses.



Burnley Crown Court handed a motor dealer a suspended sentence for doctoring the mileage readings on his cars for sales. Millions of miles were knocked off of odometers, and the dealer was ordered to repay £187,000 to customers who had been misled.



Midlands

Alleged fraud cases going to Court in the Midlands rises fourfold in value and doubles in volume in 2018

2018 saw an increase in the number (109%) and value (306%) of fraud cases that appeared in courts across the Midlands.

A total of 67 alleged fraud cases with a value of over £100,000 appeared in courts across the region during 2018, up from 32 cases in 2017. The total alleged value of the cases was over £54 million – increasing by more than £40 million on the £13 million that went to court in 2017.

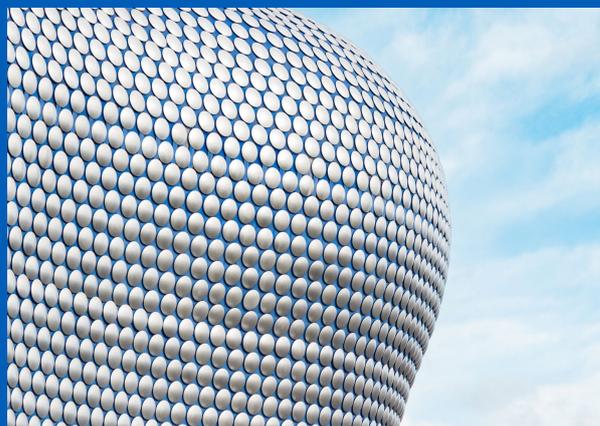
Alleged loan and mortgage fraud was by far the biggest value fraud type to appear in courts last year, with 5 cases accounting for over £30 million of the total value that went to court.



Julie Bruce
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“2018 has seen a worrying rise in the number and value of alleged fraud cases coming to Court in the region. Our financial institutions in particular have come under attack from a surge in mortgage and loan fraud adding to the pressure to ensure prevention measures are more robust. Whilst we are used to seeing businesses and financial institutions across the region being targeted by fraudsters, the last 12 months has also witnessed large value scams being targeted at people in their own homes. Just as businesses need to be on their guard, so do individuals, particularly the elderly who are vulnerable to professional scammers.”



Notable cases in the Midlands include



A rogue trader who claimed he starred on BBC's DIY SOS to trick customers out of £140,000 was jailed for five years. The fraudster let his 15 victims believe he was a skilled roofer and builder but he was in fact 'grossly incompetent'. Stafford Crown Court heard how the 'shoddy' work had 'desecrated' homes across the West Midlands. The court was told the fraud may have caused a further loss of almost £60,000 to his victims, who have had to pay to fix his work - putting them £200,000 out of pocket in total.



A fraudster who stole more than £100,000 to fund his gambling addiction betraying kind-hearted business owners who treated him 'like family' was jailed for three years. The fraud brought the company to the brink of ruin resulting in redundancies for other staff and forcing the business owners to re-mortgage their home and move into rented accommodation. The 27 year old who was an admin assistant at the firm had access to the passwords for the company's four eBay accounts and diverted money from the sale of company products into his own PayPal account using his personal email address. He would later change the email address back to that of the company, 'covering his tracks'.

South West and Wales

Fraud more than doubles in the South West and Wales in 2018

The number of fraudulent cases in the South West and Wales has doubled in 2018 compared to 2017, with 60 cases reaching court in 2018. In value terms, this shows a staggering jump from £18.1 million in 2017 to £43.3 million in 2018.

In Wales, there was also an increase in the amount of crimes carried out by employees, reminding businesses of the need for ongoing assessment of internal fraud risks and the controls they use to address those risks. In addition, unlike last year when there were no cases involving fraudsters over the age of 55, this year there were five such cases.

In the South West, there was also a significant jump in the amount of fraud cases being carried out by people over the age of 55. While there were no such cases in 2017, there were 10 in 2018, including one involving an 83 year old man.



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“Wales and the South West continues the trend of a rising number of alleged fraud cases coming to Court. Whilst we are used to seeing businesses and financial institutions across the region under attack from fraudsters, we are now seeing large value scams being targeted at individuals, who need to be just as alert to fraud risks, and healthily sceptical about dealings involving cash or their personal data.”

Notable cases in the South West and Wales include



Following a three year investigation, two men were sentenced for Cornwall’s largest ever counterfeit operation, worth around £2.5 million in illegal sales of fake items and involving the seizure of over 100,000 items. A 48 year old man was sentenced to 32 months’ imprisonment, while a 35 year old was given a two year suspended sentence.



Whilst working for the Government of Bermuda as a payments manager, a 50 year old man from Cwmbran transferred £1.3 million into his UK bank account which he then spent on cars and properties, as well as funding a gambling habit. The individual had been employed as an expert to implement a new system which he then manipulated. The individual was jailed for over seven years.



An 83 year old man from Clevedon was found guilty of falsely claiming almost £650,000 by submitting VAT returns for building supplies purchases which he claimed were for new build residential properties. HMRC commented on the individual’s manipulation of the system at the expense of the taxpayer.

South East and London

Number of fraud cases reaching Court in the South East rises 60% during 2018

The number of alleged fraud cases appearing in courts across the South East was up from 117 in 2017 to 187 in 2018.

With more than £919 million of alleged fraud cases being heard in courts across the South East, the region accounted for more than three-quarters of the £1.1 billion of alleged fraud that was seen in courts across the UK over the last 12 months.

The value of fraud in the South East is dominated by one supercase (a case over £50 million). The most common fraud case types heard in 2018 include investment frauds, account takeovers and evasion of duty with more than 15 cases of each type identified.

The value of cases involving insurance scams rose from a single £100,000 case in 2017, to nine cases worth over £11.8 million in 2018. Cases involving rogue tradesmen were also up from £0.6 million in 2017 to nearly £5 million in 2018.



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“The South East continues the trend of a rising number of alleged fraud cases coming to Court. Whilst we are used to seeing businesses and financial institutions across the region under attack from fraudsters, we are now seeing large value scams being targeted at individuals, who need to be just as alert to fraud risks, and healthily sceptical about dealings involving cash or their personal data.”

Notable cases in the South East include



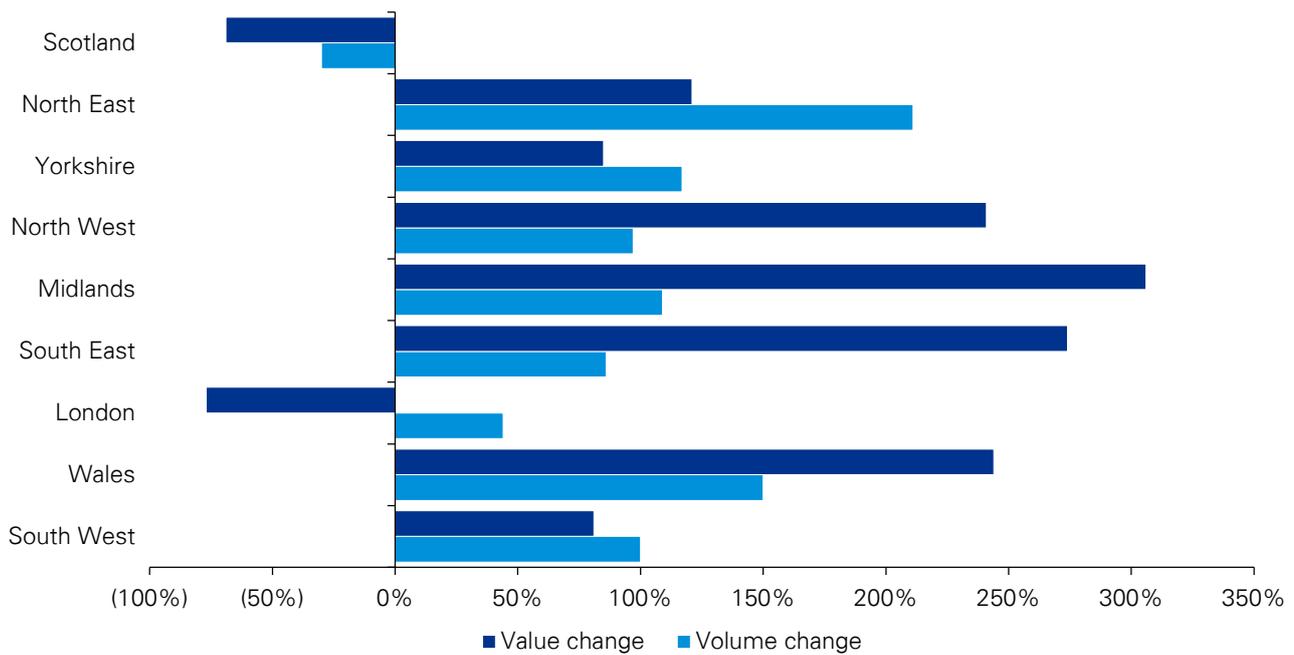
An organised crime gang based in South London defrauded businesses out of £1 million in a mass phishing operation. The scam, known as business email compromise, saw the gang purchase around 1.6 million email addresses through the dark web. Posing as a regular supplier, they sent messages directing the businesses to fake Paypal or similar sites and harvested their passwords. These were used to hack into emails and divert the invoice payments to their own accounts. The ringleader was sentenced to six years and nine months' jail after admitting money laundering charges.



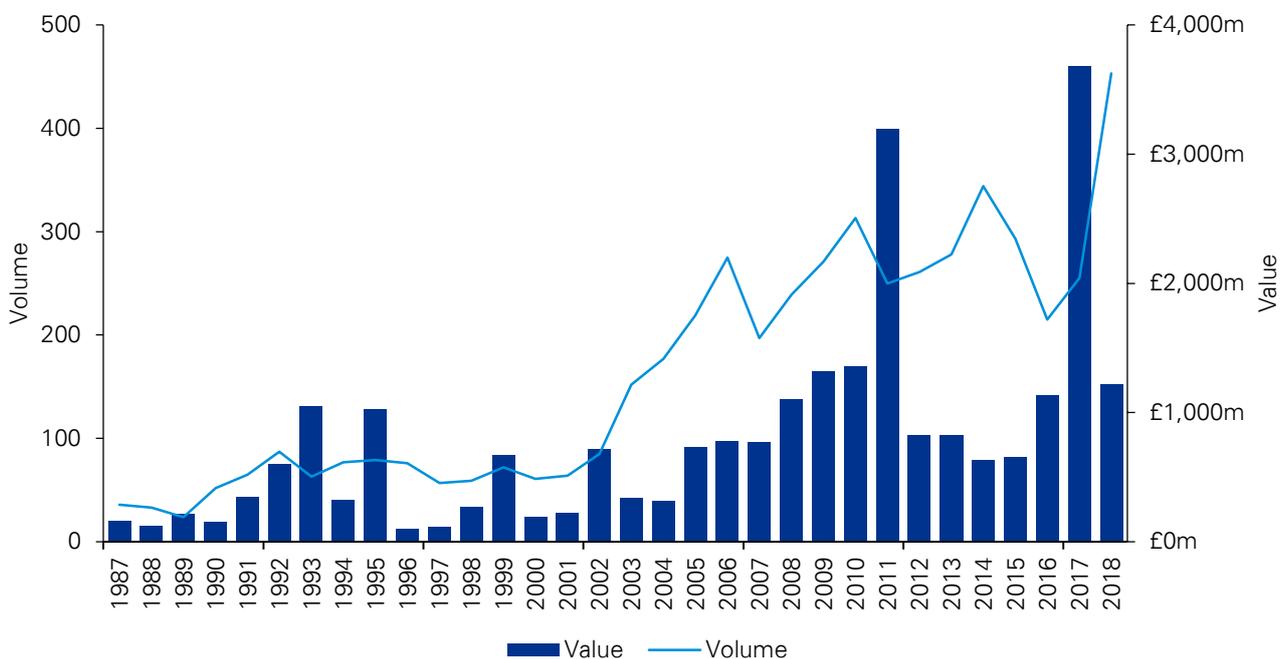
A fraudster who posed as a police officer to con thousands of pounds out of elderly victims was jailed for five years. The 23 year old was part of a criminal “franchise” scheme that defrauded victims out of £750,000 nationwide. One of his victims was a 90 year old woman who was persuaded to hand over £20,000 of jewellery and £3,790 in cash. The scam involved phone calls being made to mainly pensioners and convincing them they were assisting a police investigation into staff misconduct at banks. They were then asked to withdraw cash without telling staff the reason, a courier was then arranged with a designated password to collect the money.

The historical view

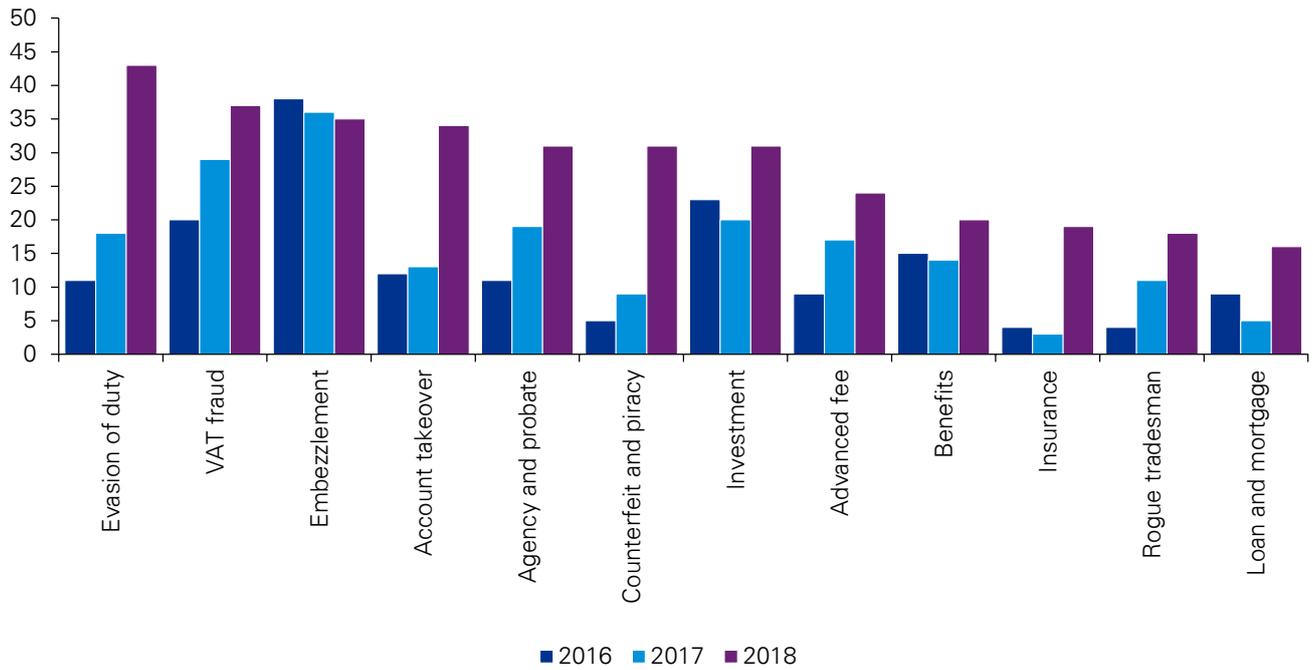
Change in volume and value of cases by geographic region (2018 versus 2017)



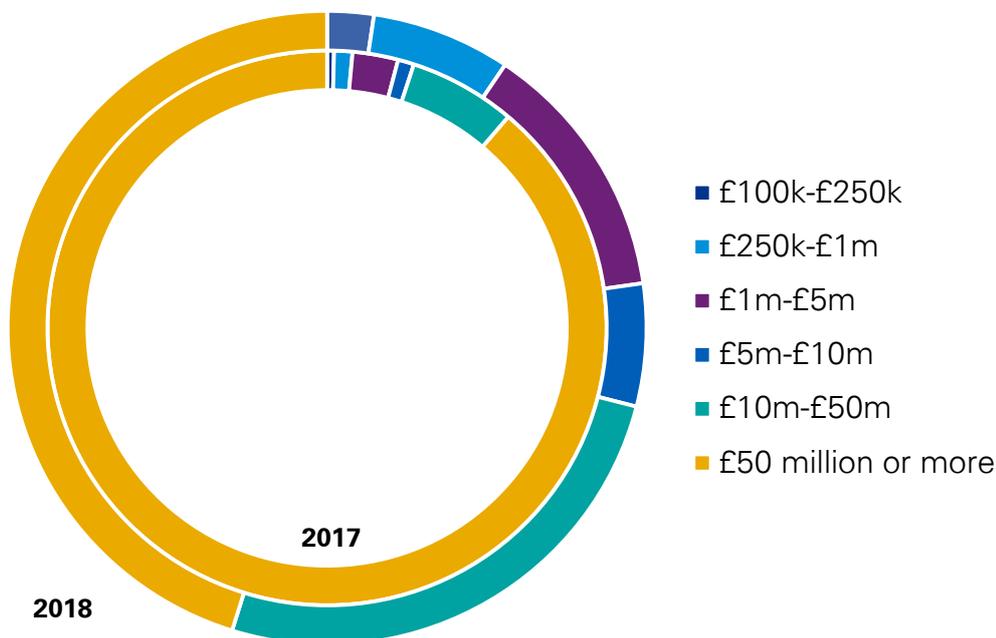
Volume and value of cases recorded since the inception of the Fraud Barometer



Top frauds by case volumes in 2018, with prior years comparison

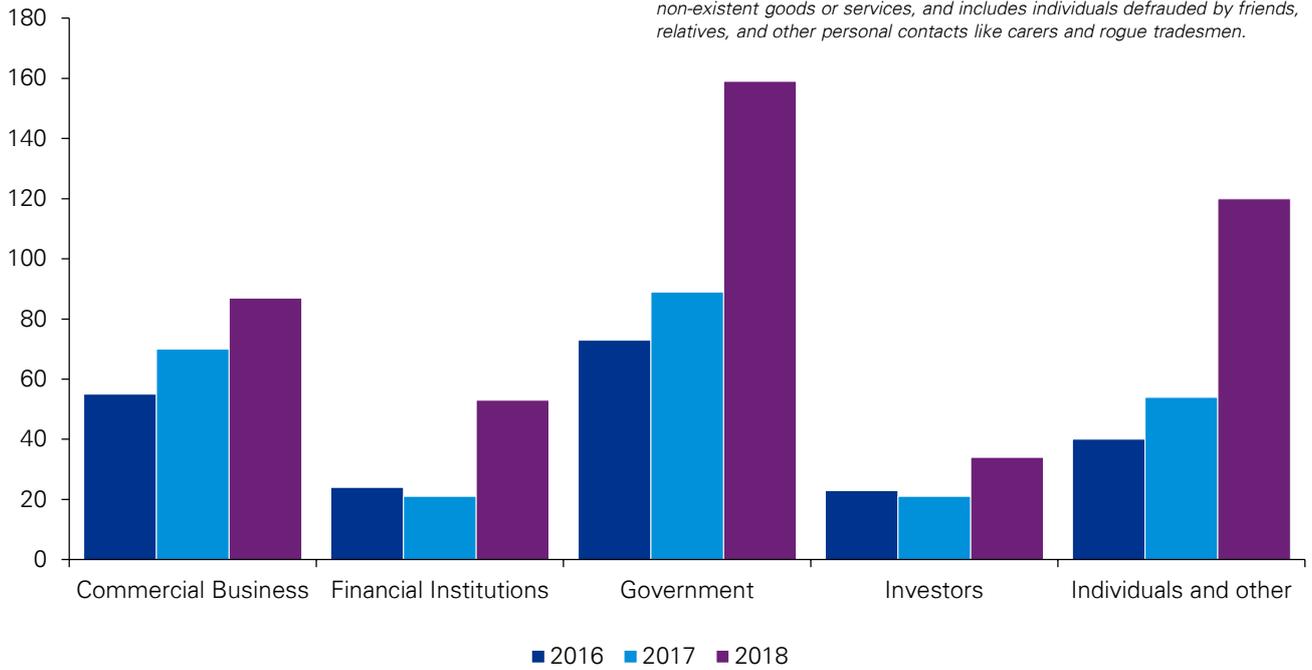


Proportion of values in Fraud Barometer, by case value range



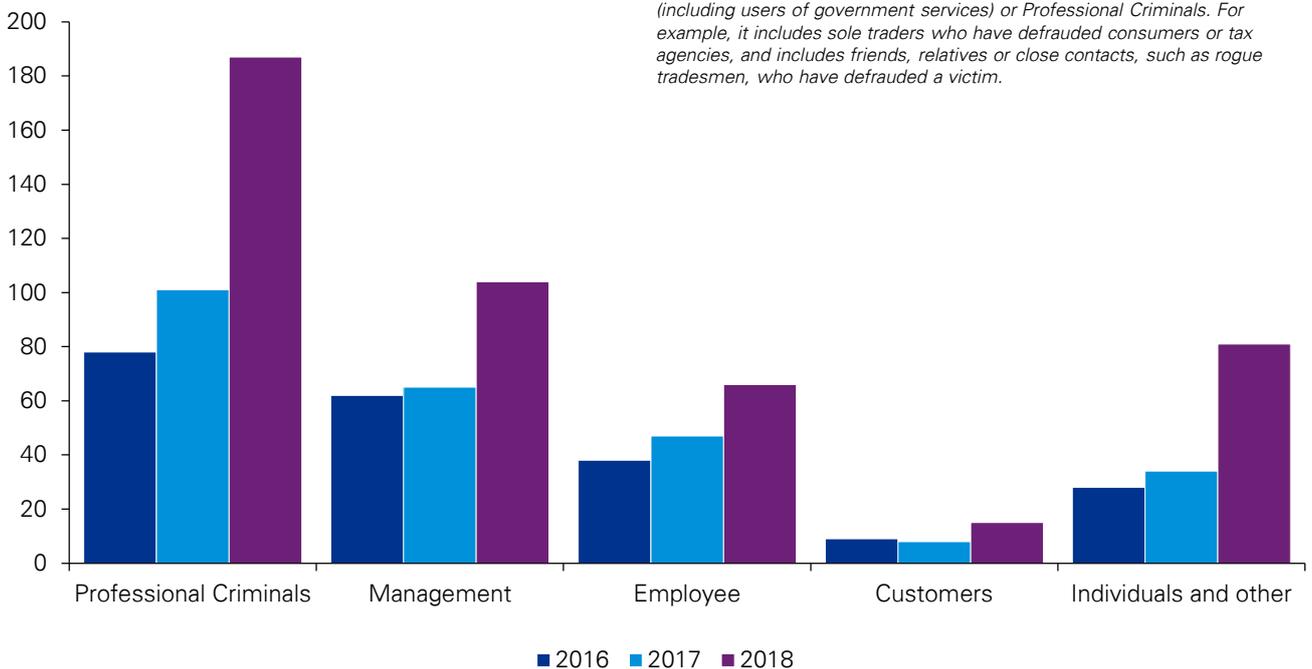
Fraud volumes by victim, 2016-2018

In respect of victims, "Individuals and other" primarily reflects members of the public. For example, it includes consumers who have been sold sub-standard or non-existent goods or services, and includes individuals defrauded by friends, relatives, and other personal contacts like carers and rogue tradesmen.

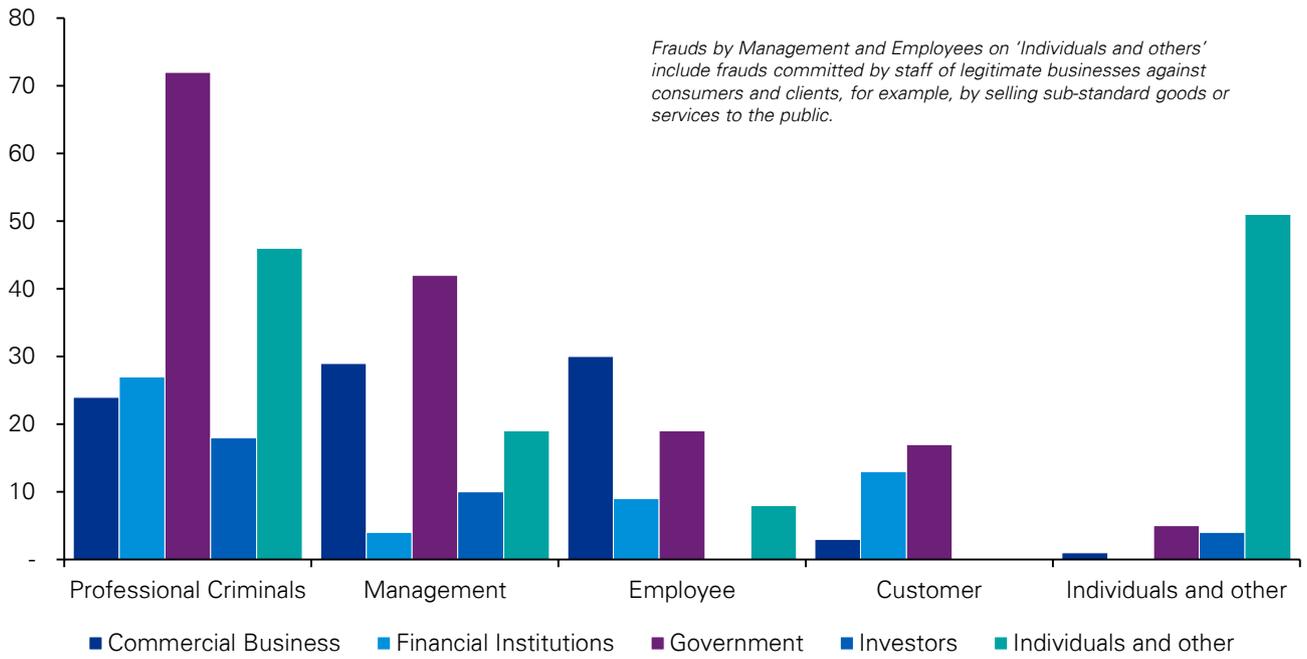


Fraud volumes by perpetrator, 2016-2018

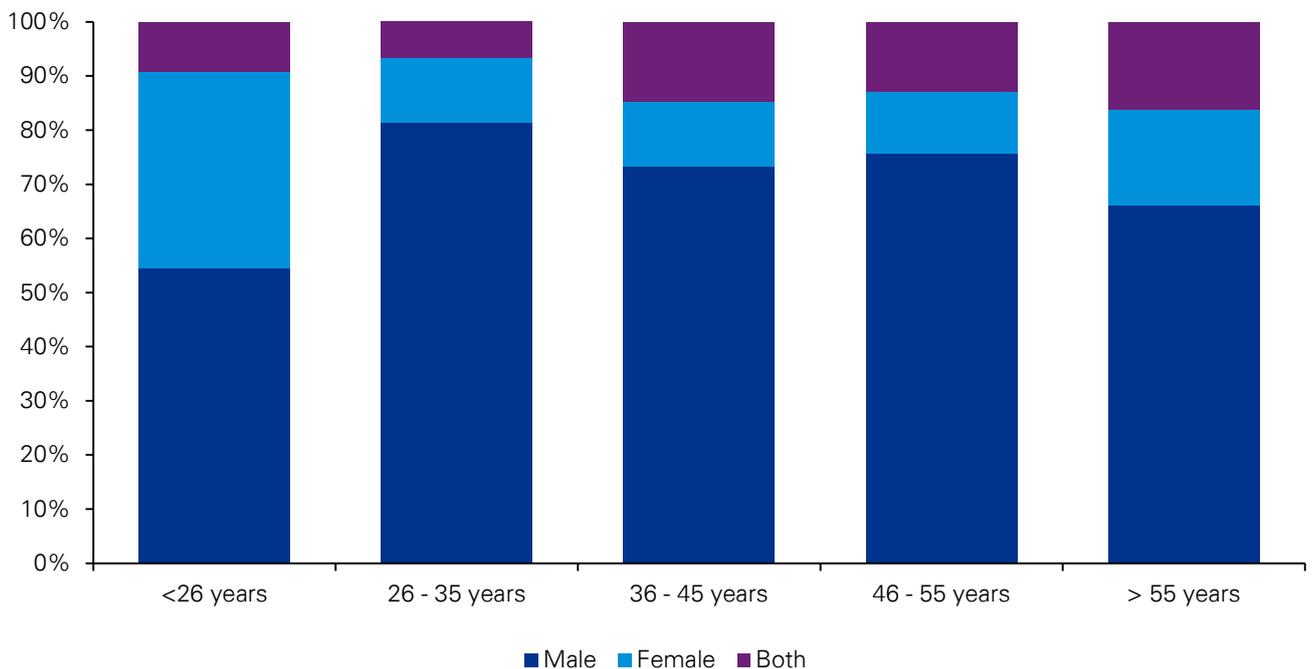
In respect of perpetrators, "Individuals and other" primarily reflects individuals not categorised elsewhere as staff (Management/ Employees), Customers (including users of government services) or Professional Criminals. For example, it includes sole traders who have defrauded consumers or tax agencies, and includes friends, relatives or close contacts, such as rogue tradesmen, who have defrauded a victim.



Frauds in 2018 by perpetrator, analysed by victim class (volume of cases)



Frauds in 2018 by perpetrator age, analysed by gender (volume of cases)





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