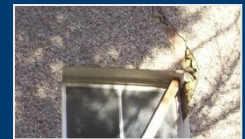


Presentation for:



Counter Fraud Training Session

Friday 26th April 2013

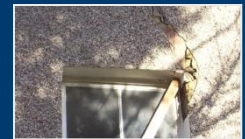


Introductions



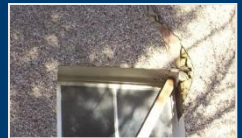
John Freeman ACFS

Counter Fraud Director QuestGates Ltd



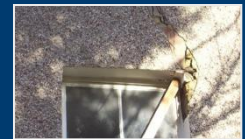
What are our objectives today?

- To understand the size of the fraud problem, some of its many forms and how it applies to Insurance.
- Identify the types of insurance fraud and what motivates a fraudster.
- We will take a look at some fraud indicators.
- Expand our knowledge in regard to the Fraud Act 2006 which is now the governing piece of legislation
- And finally understand where a fraud may take place and how we might defeat it.



QuestGates

Lots of hype but just how big is
this fraud problem in the United
Kingdom?



QuestGates

UK Total Fraud Losses 2012

Total of £73 billion:

- Public Sector - £20.3 billion (includes tax, Central and Local Government, Benefit Fraud)
- Private Sector - £45.5 billion (includes Retail, Manufacturing and of course Insurance)
- Not for Profit i.e. Charities - £1.1 billion
- Private Individuals - £6.1 billion

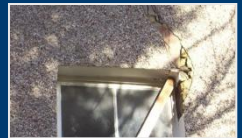
Source - NFA



Private Sector

Total of £45.5 billion:

- Financial Services makes up £3.5 billion of the above, of which;
- **Insurance represents £2.1 billion!**



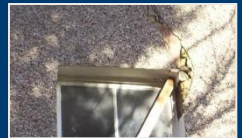
Why is fraud a problem?

- Tax on us all
- Undermines the economy
- Discourages enterprise
- Encourages criminality
- Causes fear & uncertainty
- Destabilises society



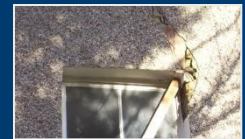
Types of Fraud

- **Plastic** – cloning, skimming, looping, counterfeiting
- **Cheque** – theft, forgery, 1st party fraud
- **ID** – impersonation, account take over
- **Procurement** – supplier fraud & collusion
- **Long firm** – false credit, stealing commercial IDs
- **Carousel** – VAT evasion



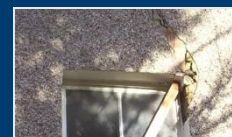
Types of Fraud - continued

- **Advanced fee** – West African 419, account plundering
- **Employee** – asset and finance misappropriation, procurement, teeming & lading
- **Internet** – Phishing, CNP, systems disruption, blackmail
- **Ponzi's** – pyramid schemes, fraudulent credit unions
- **Insider dealing** – manipulating share prices, selling info
- **Insurance** – nondisclosure, exaggeration, fabrication



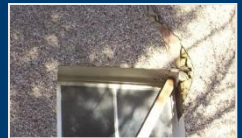
Types of Insurance Fraudster

- Opportunist
- “Graduated Opportunist” or Repeat Offender
- Professional or Organised



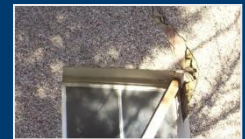
Fraud Motivators

- Greed
- Debt or financial pressure
- Peer pressure
- Emotional pressure
- Revenge
- Arrogance
- Criminal / Moral Hazard
- Opportunity versus risk of detection
- Lack of deterrents e.g. Lenient sentencing?



Examples of Fraud Indicators

- Very friendly
- Evasive
- Angry
- Financial stress
- Previous claims
- Non-disclosed claims
- Suspicious circumstances
- Altered documents



What is Fraud in Layman's Terms?

*“Intending to deceive someone
to make a financial gain”*



Little doubt that fraud involves dishonesty

“dishonest by ordinary standards of reasonable and honest people and that the defendant must have known the act was dishonest by those standards”

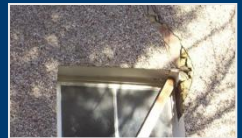
R V Ghosh (1982)



There has to be an “intent”

The elements of the offence as laid out in the Fraud Act 2006 are that the Defendant:

- failed to disclose information
- had a legal duty to disclose that information
- was dishonest
- intended, by that failure, to make a gain or cause a loss

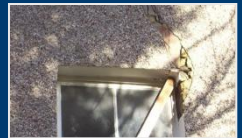


Legislation

- Theft Act 1968, 1974, 1976
- No specific offence in fraud
- Obtaining Property by Deception Section 15
- Obtaining Pecuniary Advantage Section 16



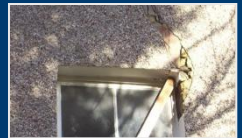
- Fraud Act 2006



Fraud Act 2006

Three sections:

- 2 – fraud by false representation
- 3 – fraud by failing to disclose information
- 4 – fraud by abuse of position



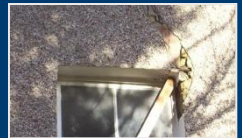
Section 2 - False representation

Section 2 makes it clear that the representation must be made dishonestly and that it is made with the intention of making a gain or causing a loss or risk of loss to another.



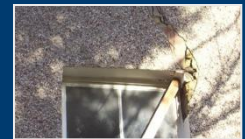
Section 2 - False representation

- Ghosh case applies a 2 stage test to an act of dishonesty.
 - Was the act dishonest by ordinary standards?
 - If the answer to this is Yes:
 - Was the defendant aware that his conduct would be regarded as dishonest by reasonable and honest people?
- Its also important to understand that the “false” representation can be made by words or communicated by conduct.



Section 3 - Failure to disclose

- The act makes it clear that a fraud will be committed if a person fails to declare to another information which he or she has a legal duty to disclose.
- As in Section 2 there is still the requirement for dishonesty to be present and an intention to make a gain or expose another to risk of loss.
- In an insurance contract there is a legal duty to correctly declare circumstances.



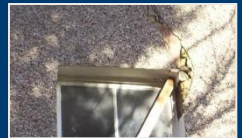
Section 4 - Abuse of position

This section sets out the offence of committing fraud by abuse of position. It requires that evidence be supplied that a person who is in a privileged position acted dishonestly by abusing the position held.



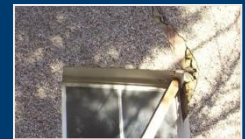
New offences - but not for consideration today!

- Section 6 - Possession of articles used in frauds
- Section 7 - Making or supplying articles for use in frauds
- Section 9 - Participating in fraudulent trading
- Section 11 - Obtaining services dishonestly



UK Law

- Criminal Standard of Proof
- Civil Standard of Proof
- Private Prosecutions?



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Underwriting



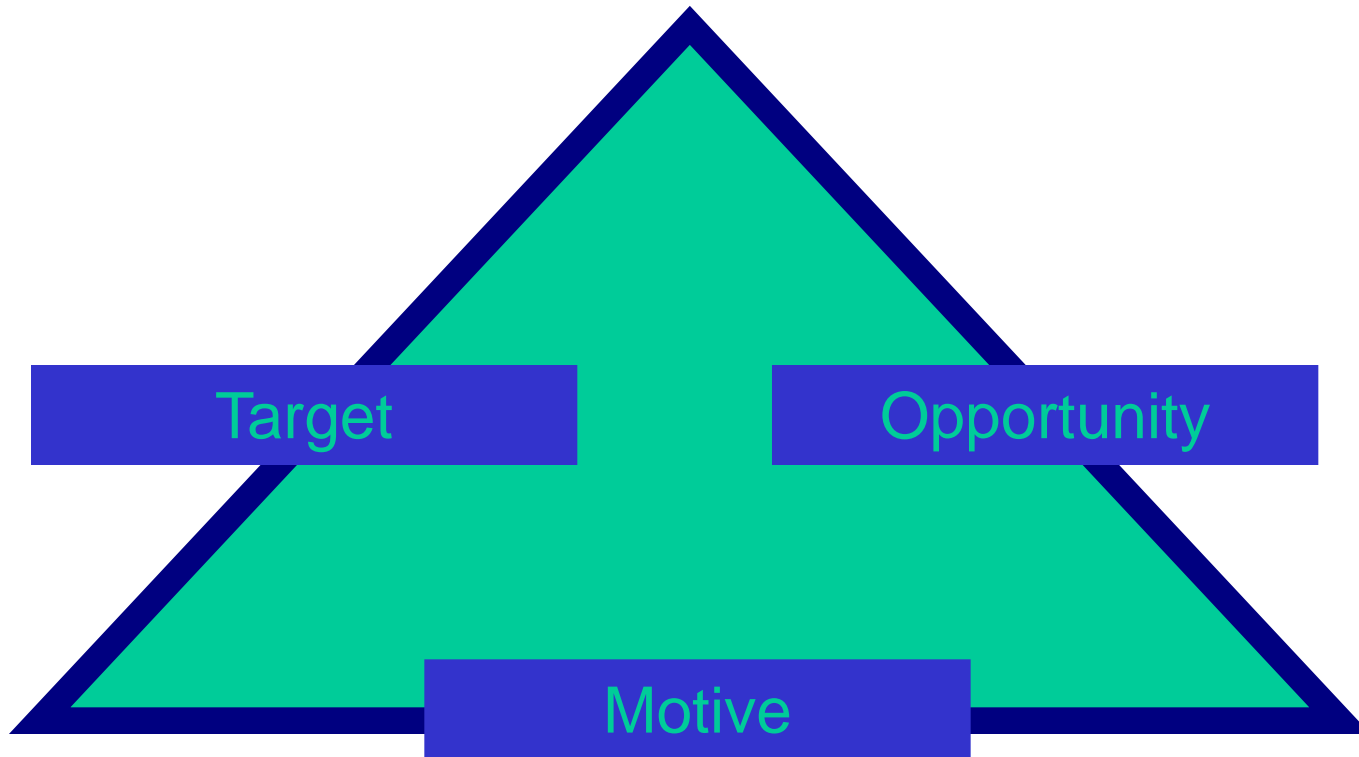
Circumstances



Loss



The Fraud Triangle (Wells, 1997)



Remove one side and the triangle is broken

An effective fraud strategy must have:

- Measurement
- Authority and Support
- Specialist training
- Effective relationships with other organisations
- Counter Fraud Culture
- Deterrents
- Prevention
- Investigation



So what have we (hopefully) learnt today!

- Fraud is a threat to not only the insurance industry but the wider UK economy.
- If it remains unchecked then everyone will suffer
- That its important to understand why fraud is committed as from this we can learn how to defeat it
- That the Fraud Act 2006 is actually a good bit of legislation as it simplifies our approach and makes it clear how we need to direct an investigation
.....and finally.....
- That everyone working in insurance has an inherent duty to combat it.

