



Fraud Barometer

A snapshot of fraud in the UK



Jan – Dec 2015
Edition Two

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 2015.

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 nearly 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 currently headed up nationally by Hitesh N. Patel, and supported by the following regional leads: Ken Milliken (Scotland), Sara Smith (the North East), Vivien Hopkins (Yorkshire), Graham Cochran (the North West), Simon Albrighton (the Midlands), Chris Wheeler (the South East and London) and Akhlaq Ahmed (the South West and Wales). Details of the national KPMG Fraud Barometer team can be found at the back of this report.

“The KPMG Fraud Barometer is one of the longest running surveys of its kind in the UK with data spanning nearly 30 years.”

Hitesh N. Patel
Partner
KPMG Forensic

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The national picture

The data for 2015 shows that, nationally, fraud was marginally up on the previous year up to £732m from £717m in 2014.

The average value of fraud per case also increased to £2.4m in 2015 compared to £2m in 2014. A key driver for this rise being two cases which accounted for £253m of the total fraud recorded in 2015.

Criminals continued to prey on the most vulnerable in society. KPMG's research revealed a rise in fraudsters targeting those in financial distress, offering a false safety net to dupe victims into surrendering both money and assets. Businesses and public organisations were also targeted, with fraudsters falsifying their financial position to extract funds or entice funding investment, leading to losses of £176m, a tenfold increase on 2014.

The key highlights of the year were:

- Fraudsters targeting victims in financial distress
- Fraudsters falsifying finances to entice investment, leading to losses of £176m
- Of all frauds, men over the age of 45 perpetrated over 72%.



Fraudsters target the poor and the vulnerable

KPMG's Fraud Barometer saw a marked increase in fraudsters targeting individuals and families, particularly those in financial distress, stealing £156m. This reflects a 300% increase on 2014 when just £38.5m was lost by vulnerable victims.

In one such case criminals preyed on victims struggling to pay their mortgage, offering to buy their homes and lease them back to the individuals, enabling them to stay in their properties. In collusion with a crooked surveyor, the properties were re-mortgaged for an inflated value in the names of unsuspecting nominees, and the loans were then defaulted upon. Whilst financial institutions were subject to losses of £111m, the human cost was also significant as many of those taken in by the scam lost the homes that they thought they had saved.

In another case the perpetrator ran two companies offering debt restructuring and advice services to help people manage and reduce their debts. However the fraudster diverted the payment received from victims into a personal bank account, leaving both the firm's customers and creditors out of pocket to the tune of £900,000.

Hitesh N. Patel, UK Forensic Partner at KPMG, said: "Criminals hiding behind a veil of respectability are preying on the poor, pushing people further into poverty. After appearing to offer victims a way to escape their debt, they have then proceeded to take what little the victims had left. With interest rate rises possible in 2016, such debt restructuring schemes are, sadly, likely to remain popular with fraudsters. People struggling with their rising living costs and who are naturally looking for help will be especially vulnerable to falling into the webs woven by such fraudsters."

"Criminals hiding behind a veil of respectability are preying on the poor, pushing people further into the poverty trap."

Hitesh N. Patel
Partner
KPMG Forensic

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The cost of ignorance: Fraudsters falsify finances to entice investment

Businesses were also persistently targeted, with the private sector losing £332m in 2015 to scams. Criminals used tried and tested techniques, with some falsifying their finances to deceive victims and extract funds or entice funding investment. A failure to scrutinise prospective deals and third parties resulted in losses of £176m in 2015, a tenfold increase on 2014.

In one large case, fraudsters deployed this technique to target financial institutions, securing fraudulent loans totalling £142m. The perpetrators allegedly presented a falsified order book as an asset, against which the large loans could be secured. The customers did not in fact exist.

Due diligence is just one tool organisations can use to defend against fraud. A culture of zero tolerance to fraud, an effective whistle-blowing line to enable employees to be the eyes and ears of an organisation, coupled with data analytics to detect fraudulent activity can often provide strong deterrence to would-be fraudsters.

Hitesh N. Patel commented: "These worrying levels of losses to businesses have arisen simply as a result of not knowing the integrity and track record of who is on the other side of a deal. With detailed financial information available at the click of a button, it is easier than ever for criminals to falsify their finances. However, in many cases businesses can expose such fraudsters by

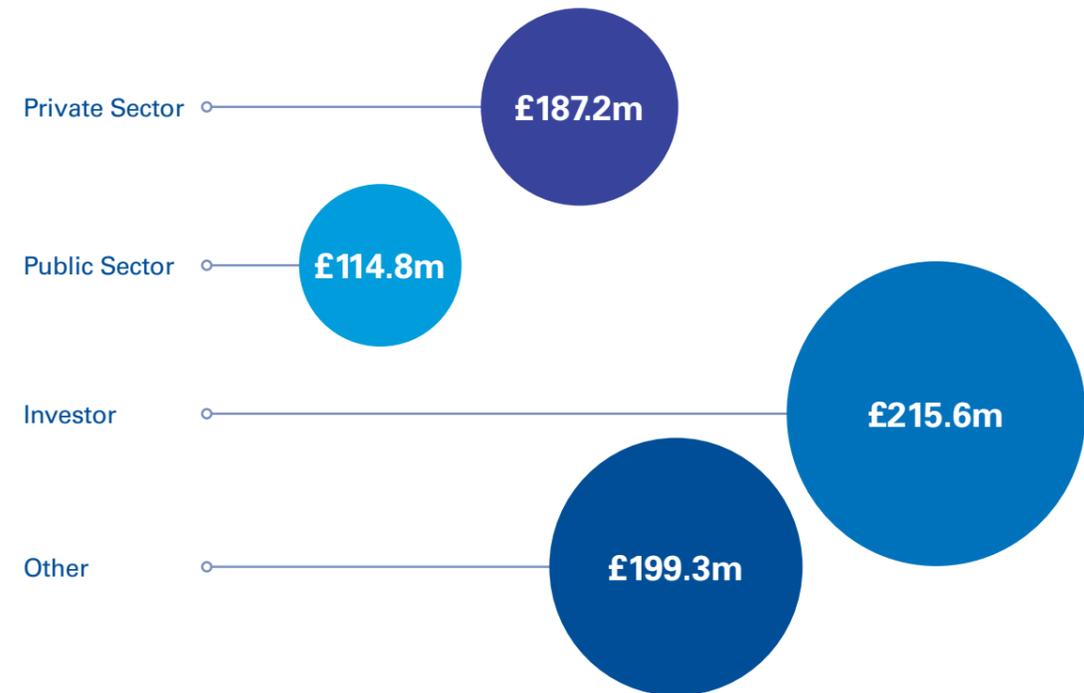
deploying thorough checks and undertaking full due diligence. Businesses must raise their defences and put in place thorough checks around counterparties – the cost of ignorance is one that businesses can readily minimise."

"Businesses must raise their defences and put in place thorough checks around counterparties – the cost of ignorance is one that businesses can readily minimise."

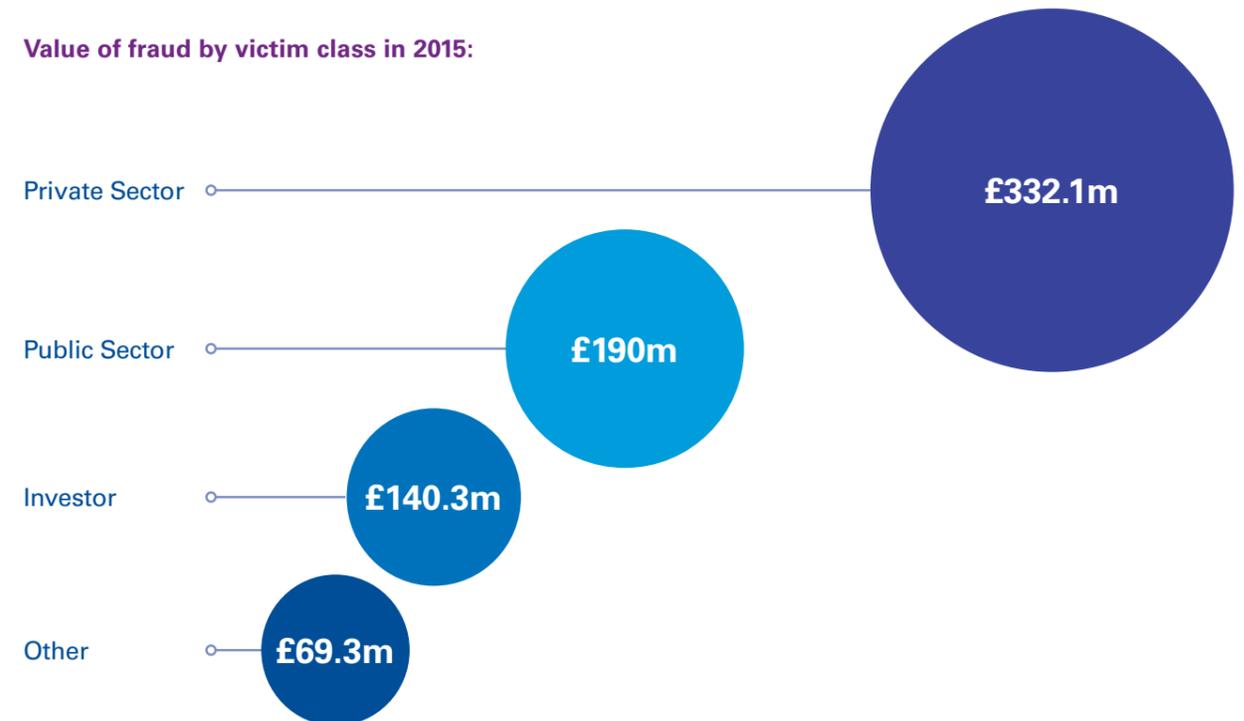
Hitesh N. Patel
Partner
KPMG Forensic

Comparison of year-on-year fraud by victim class

Value of fraud by victim class in 2014:



Value of fraud by victim class in 2015:





Men over the age of 45 perpetrated the most frauds in 2015

KPMG’s research has shown that men are once again the most likely perpetrators of fraud, and were responsible for 85% of all losses in 2015 (£619m). This is a significant increase on the previous year when male fraudsters were responsible for 60% of the losses incurred (£431m).

This increase has been driven by men over the age of 45, whose actions caused losses of £529m. More than half of these were the result of insider fraud, with employees and management abusing their position of trust to defraud employers, investors and customers of £303m.

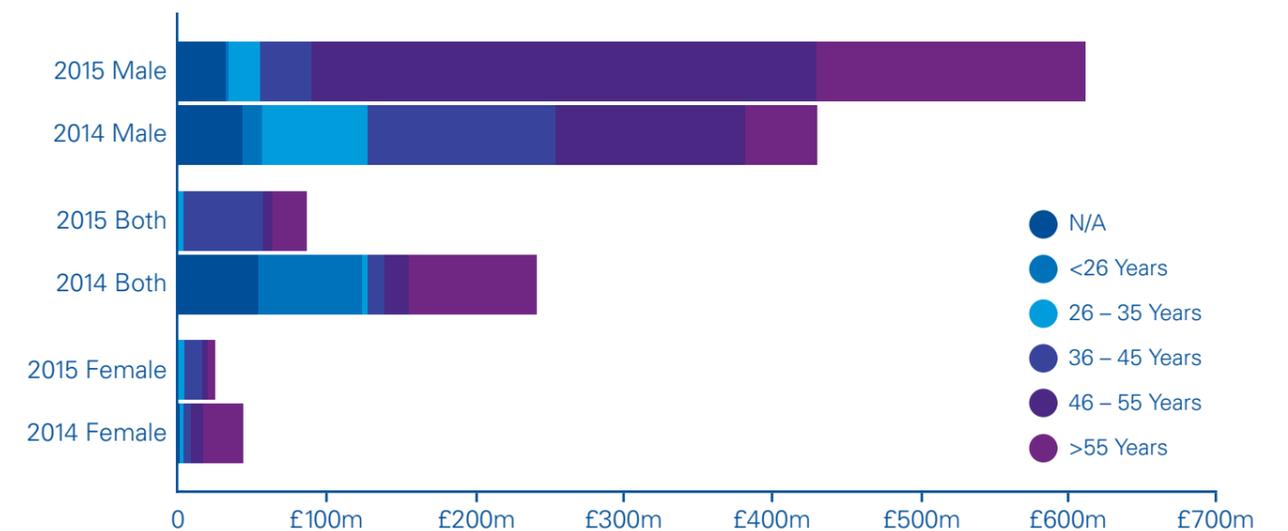
In one case a solicitor defrauded £400,000 from the estates of deceased clients. The perpetrator ran a probate and domestic conveyancing business and abused his position to steal the money. His crimes were uncovered when his firm merged with another and the new management became suspicious.

Hitesh N. Patel commented: “These fraudsters are often respected individuals in a position of trust, who have the opportunity and means to commit the fraud, making it hard for companies to easily detect the same. Employers must remain alert to tell-tale behaviours which can indicate a fraud is taking place, such as a refusal to relinquish mundane tasks, an aversion to independent review or obfuscation when questioned.”

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Hitesh N. Patel
Partner
KPMG Forensic

Value of fraud by gender and age – 2015 v 2014:



38%

Financial Institutions

Fraud loss by victim

26%

Government

9%

Other

19%

Investor

8%

Commercial Businesses



Who were in fraudsters' sights in 2015?

2014 value
£717m

2015 value
£732m



Total cost of fraud cases



2015
310 cases
£732m



2014
353 cases
£717m



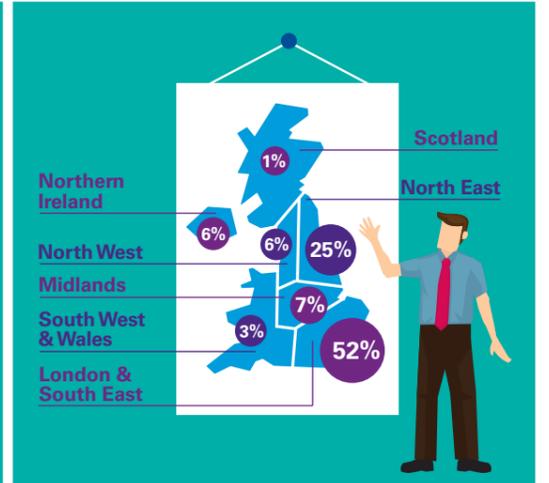
2013
283 cases
£829m



2012
261 cases
£824m



2011
251 cases
£3,548m



Regional fraud loss

In 2015 nearly
3 out of 4



of total frauds perpetrated by men over the age of 45

Cases found to be committed by male fraudsters



2014
60%

£431m

2015
85%

£619m

Men were the most prolific perpetrators



Leading to losses of
£176m

A tenfold increase in falsifying finances to entice investment

300% increase in fraudsters targeting individuals and families stealing

£156m



Fraudsters target the poor and vulnerable

The regional picture

(from North to South)

Scotland

High value fraud in Scotland falls by half in 2015

KPMG's Fraud Barometer shows that the amount lost to high value fraud in Scotland has fallen from £8.6m in 2014 to £4.7m in 2015 (46%).

The number of fraud cases also fell slightly from 13 to 12 (8%) following a similar decline between 2013 and 2014. In the last six months of 2015 there were only three cases coming to courts in Scotland, compared to nine cases between January and June.

However, although the overall number of cases and value of fraud has fallen, the volume of cases committed by employees and management against their own employers, increased by 83% from six in 2014 to 11 in 2015, with the Scottish public sector being particularly hard hit – losing £2m in 2015 compared to less than £700,000 in 2014.

Fraud committed by customers against businesses in Scotland dropped from five cases in 2014 to zero in 2015.

Ten of the 12 reported cases carried out were by those aged 36 – 55 years old.



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Ken Milliken, Head of Forensic for KPMG in Scotland said: "The second six months of 2015 have seen a fall in the value and the number of fraud cases coming to court in Scotland. However, the insider threat remains, with fraud by management and employees on the rise. We report on the high value, cases which have come to court. We know from our work with organisations across several industries that there are many more instances of insider fraud and embezzlement. Organisations, particularly within the public sector, need to look at their own internal processes to make sure that opportunistic staff of all levels cannot exploit security gaps. This is not just a Scottish problem, with the public sector across the UK also suffering. Having strong fraud policies is not enough. More needs to be done by all organisations to truly understand the risks of fraud and to address those specific risks. The threat may not be where you expect it to be."

The cases recorded in Scotland in 2015 include:



Ayrshire: A senior NHS worker from Ayrshire jailed for stealing surgical equipment worth £1.3m over many years.



Edinburgh: Two council bosses jailed for abusing their position and taking bribes from contractors over the course of five years.



Glasgow: A Glasgow book-keeper convicted of stealing £220,000 from a client, claiming he had won the lottery to explain his sudden wealth.



North East

£100m case dominates major frauds in North East Courts

KPMG's Fraud Barometer found that the value of fraud across the North East rose by 746% in 2015 to £139.4m, compared to £16.5m in 2014. The figure represents the highest rise across the UK and is dominated by one £111m case.

While case value rose dramatically, the number of cases across the region fell by 27%. Only 16 fraud cases appeared before the North East Courts in 2015, compared to 22 in the previous year. Of these, there was a significant reduction in the volume of low-value (<£1million) crimes, which dropped by 40%.



Sara Smith

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Sara Smith, Senior Manager, KPMG Forensic in the North East, said: "Despite a reduction in the number of cases across the region, the latest KPMG Fraud Barometer shines a spotlight on the impact of 'super' frauds. Many business owners fall victim to unscrupulous employees and if business owners do not keep a rigorous check on a firm's finances, such people will continue to exploit their position until caught. Despite the number of cases falling overall, the prominence of high-value cases casts a stark warning to those in charge and highlights the importance of ensuring a business is well-protected."

Notable cases coming to court in the North East during the second half of 2015 include:



Teesside: A 57-year old businessman has been jailed for five-and-a-half years after masterminding a mortgage scam, branded one of the biggest in the UK. The long-running fraud caused losses of more than £111m to three lenders.



Newcastle: A 64-year old caretaker was jailed for two years after selling £1m of illicit cigarettes, tobacco and alcohol from an industrial estate. Customs officers seized more than 1.5m cigarettes, three tonnes of hand-rolling tobacco and 18,000 litres of beer, wine and spirits. The goods were worth £946,623 in unpaid duty and VAT.



Stockton: A 62-year old businessman who funded a luxury lifestyle with an £840,000 tax fraud has been jailed. He failed to register the company for VAT, despite still charging his clients, and avoided paying more than £450,000 in VAT payments. He also avoided payment of a further £390,000 in income tax.

Yorkshire

Average fraud in Yorkshire increases to nearly £2m

KPMG's Fraud Barometer found that the average value of frauds in Yorkshire rose to £1.9m in 2015. The number of cases in the county fell by 37 per cent from 38 counts in 2014 to 24 in 2015.

It also reports that the total value of fraud offences in local courts reached £45.8m – a rise of 29 per cent over the 12 month period from £35.4m. However, the statistics were skewed by a landmark £30m case earlier in the year at York Crown Court that heard how fraudsters mimicked government websites and tricked people into paying for services. Discounting the case, average fraud declined by 29 per cent from more than £932,000 to just over £659,000.



Vivien Hopkins
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Vivien Hopkins, Forensic Director at KPMG in Yorkshire, said: "While it is pleasing to see that underlying average fraud values in Yorkshire have declined, the cases brought to court in 2015 show that there are people out there willing to abuse their positions of responsibility and trust for their own financial gain and take advantage of the most vulnerable in society."

Cases that were heard at courts across Yorkshire and Humber during the second half of 2015, include:



Hull/Humber: An accountant was jailed for two years after stealing almost £300,000 from Goole-based Yorkshire Lawn Tennis Association. Over six years, the 60-year-old man committed the fraud to help prop up his failing businesses.



Huddersfield/Kirklees: The manager of a shisha bar in Huddersfield town centre was jailed for three years after being convicted of four fraud offences, concealing the proceeds of criminal conduct and making an untrue statement to obtain a passport. The 41-year-old man was caught by environmental officers running a £200,000 fake-documents scam.



North West

Fraud against commercial businesses increases by over 50%

KPMG's Fraud Barometer found that despite a fall in overall cases the total value of fraud committed reached £43.6m in 2015 in the North West.

Fraud from commercial businesses rose by 56 per cent during the year from £5.6m to £8.8m, while government organisations were victim to a 49 per cent rise in fraud value to £23.8m. People in management positions were responsible for the most cases in the region, with their share of fraud increasing by 86 per cent over the past 12 months.



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Graham Cochran, Forensic Director at KPMG in the North West, said: "It is clear that while businesses, banks and public sector organisations in the region have made great steps to protecting themselves in recent years, there will always be people that try to abuse their position of trust and responsibility. Our research highlights the significant increase in the frauds perpetrated by people in management positions and organisations should remain vigilant and not rule out the risk of fraud being committed by senior trusted members of the team."

Notable cases coming to court in the North West during the second half of 2015, include:



Cheshire: A Handforth-based director of two debt management firms was jailed for taking more than £1m from vulnerable clients. The 41-year-old man, who targeted those that could not pay off their debts, admitted to two charges of fraud by false representation at Chester Crown Court.



Greater Manchester: A 51-year-old IT worker in Bolton was charged with fraud by abuse of position after she made more than £580,000 in fraudulent transactions while working as a purchase ledger supervisor at an IT company.



Merseyside: A flight attendant was caught leading a smuggling operation while working for a major budget airline. HMRC found that the 44-year-old woman had organised over 130 smuggling trips for herself and five others to smuggle cigarettes and alcohol to evade £180,000 of duty and taxes.



Lancashire: A man was sentenced to four years in jail after defrauding an elderly aunt out of £330,000 to feed his gambling addiction. The 54-year-old man admitted fraud after his relative granted him power of attorney in 2007 to her savings and was caught when a cheque was returned to pay for her care home fees.

Midlands

Midlands bucks national trend as fraud declines by a third

Fraud cases seen in the Midlands courts decreased by 28% in 2015 compared to 2014. With case value in 2014 amounting to £72m, there has been a significant fall to 2015's figure of £52m. Despite the fact that 2015 saw a slight increase in the total number of cases passing through the courts, from 34 to 37, the average value in 2015 was £1.4m compared to £2.1m in 2014. These declining figures in the Midlands buck the national trend, where both total fraud and the average case value have risen.

However, the Midlands has seen some fraud hotspots in 2015, with one being a 500% increase in the value of fraud committed by women, up from £410,000 in 2014 to £2.5m in 2015. This £2.5m was split across eight individual cases, rather than the two perpetrated by women in 2014.

Investor fraud increased substantially year on year in the Midlands, with it rising from just £390,000 in the previous year to a huge £23m in 2015. However, looking behind the statistics, this was due to two very significant cases: a £14m fraud perpetrated by two directors misusing funds from a group of investment companies; and a £9m fraud in which three men conned more than 100 people out of their savings. Employee fraud was the other notable area of increase, with a 225% increase in fraud value from £2m to £6.6m, although again this was mainly due to a particularly sizable fraud, in this case of £4.4m.



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Simon Albrighton, Forensic Partner at KPMG in the Midlands, said: "The decline in fraud cases in the Midlands shows that both businesses and individuals are becoming savvier when it comes to the machinations of those who set out to defraud others. The fact that we are bucking the national trend is a good sign for the region, and indicates a welcome increase in awareness, understanding and vigilance. However, instances of fraud are by no means a thing of the past – £52 million is still a huge figure; with people still carrying out frauds against both businesses and individuals, the need for us all to be on our guard is still very much in evidence."



Cases to reach the region's crown courts during this period include:



Warwick: A female accountant from Bilston who defrauded HMRC of £300,000 to pay off her gambling debts.



Nottingham: A family of premium chatline workers from Nottingham who conned lonely widowers out of £600,000.



Birmingham: A man from West Bromwich who stole £325,000 from the housing association where he was deputy chief executive to fund his lavish lifestyle.



Leicester: A Leicester man who stole £155,000 worth of garments from his employer and then sold them on eBay for £63,000.

South East and London

Surge in number of frauds targeting financial institutions

Financial institutions across London and the South East were hit hard by fraudsters over the last 12 months with £157 million being defrauded by criminals, an increase of 779% on last year.

Overall, the total value of fraud prosecuted in the region in 2015 fell by 21% to £381 million but still accounted for over half of all fraud taking place in the UK.

There was also a marked increase in the value of frauds being committed by managers and employees which was up by 153% on 2014 figures.



Chris Wheeler
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Chris Wheeler, Forensic Director for KPMG in the London Region said: "London and the South East remain fraud hotspots in the UK. In particular financial institutions have been hit hard this year. Fraudsters and criminal gangs see financial institutions as a series of processes that they need to overcome, but once penetrated the rewards can be bountiful. Whilst large organisations focus on regulatory efforts to combat financial crime at the front end, such as money laundering, the data shows vulnerability to old-fashioned back office fraud. The importance of employee screening and pre-employment due diligence measures cannot be understated."

Cases to reach the region's crown courts during this period include:



London: In one case a mother of two from Surrey stole £1.75 million from the family business that she worked for as bookkeeper. Unbeknownst to the business when they recruited her she had previously been convicted of benefits fraud and 10 counts of fraud against a former employer.



South West and Wales

Increase in investment scams by white-collar criminals

Losses in the South West and Wales in 2015 were highest among vulnerable individuals duped into false investment schemes. In the South West the number of these cases has more than doubled on last year, leading to £5m losses among investors, and Wales saw two cases involving an estimated total loss of £6m losses for investors.

There has been an increase in fraudulent activity among middle aged men in the South West and Wales. Fraud perpetrated by those in the 46-55 age group increased 40% on last year to £3.8m in the South West, and accounted for nearly half of the value of cases seen in Wales in 2015.

The value of fraud prosecuted in the South West totalled £11.3m in 2015, down from £34m in 2014. However, discounting the single investment scheme loss of £21m last year, there has only been a slight decrease in the value of fraud, and a drop of a quarter in the number of cases in the South West (from 33 in 2014 to 24 in 2015).

In Wales the number of fraud cases has remained broadly static whereas the value of fraud has decreased from £16m in 2014 to £10m in 2015. However, the number of frauds perpetrated by managers of businesses has more than tripled from two cases in 2014 to seven cases in 2015, representing half of the fraud cases this year.



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Akhlaq Ahmed, Forensic Director for the South West and Wales at KPMG, said: "It's interesting to see that the South West and Wales has bucked the national trend this year, with the average value of fraud falling in the region this year. But that doesn't hide the shocking trend for the financially vulnerable being tricked into investing their money in fraudulent investments. Management continue to be a significant perpetrator of frauds, some abusing their trusted position as figureheads of business by duping investors into fraudulent investments."

Notable cases coming to court include:



Abergavenny: A financial consultant tricked investors out of £4.5m to pay for his lavish lifestyle. He reported impressive returns on the investments, which led to other investors to part with their money. However he was making significant losses and dipped into the funds to buy expensive jewellery, horses, sports cars, and fine wine, and pay for rent on his country home. He lost all of the investors' money and was declared bankrupt. He was imprisoned for six years.



Bristol: A 45-year old man allegedly abused his trusted position as an ex-banker to steal almost £300,000 from two elderly women aged 88 and 95 that he was supposed to be helping with investments. He instead used their life-savings to fund the lifestyle he and his wife enjoyed.



Trend in fraud by region

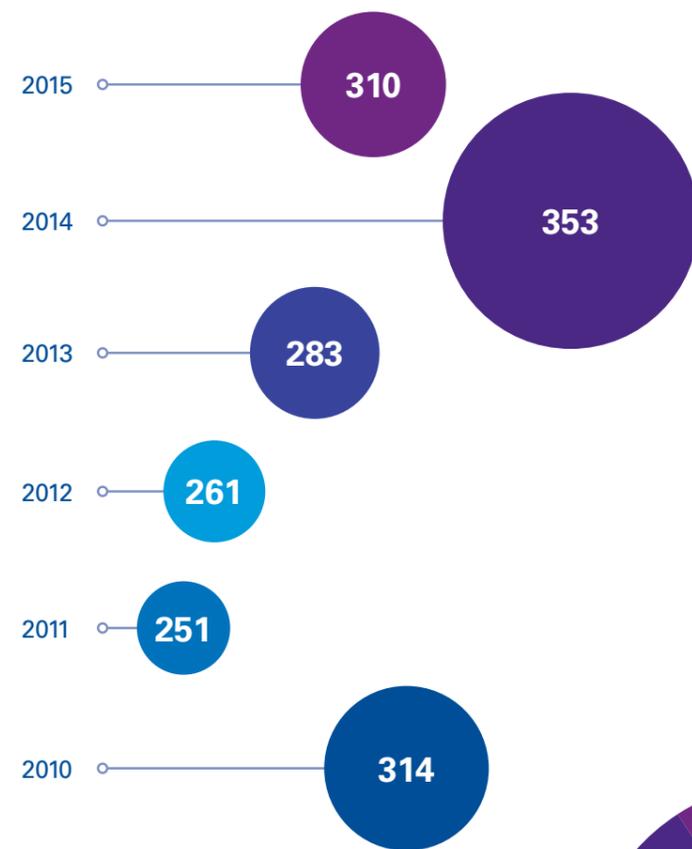
Increase/decrease in fraud value (2015 v 2014):



The historical picture

Trend in total fraud

Total volume of fraud per year (2010-2015):

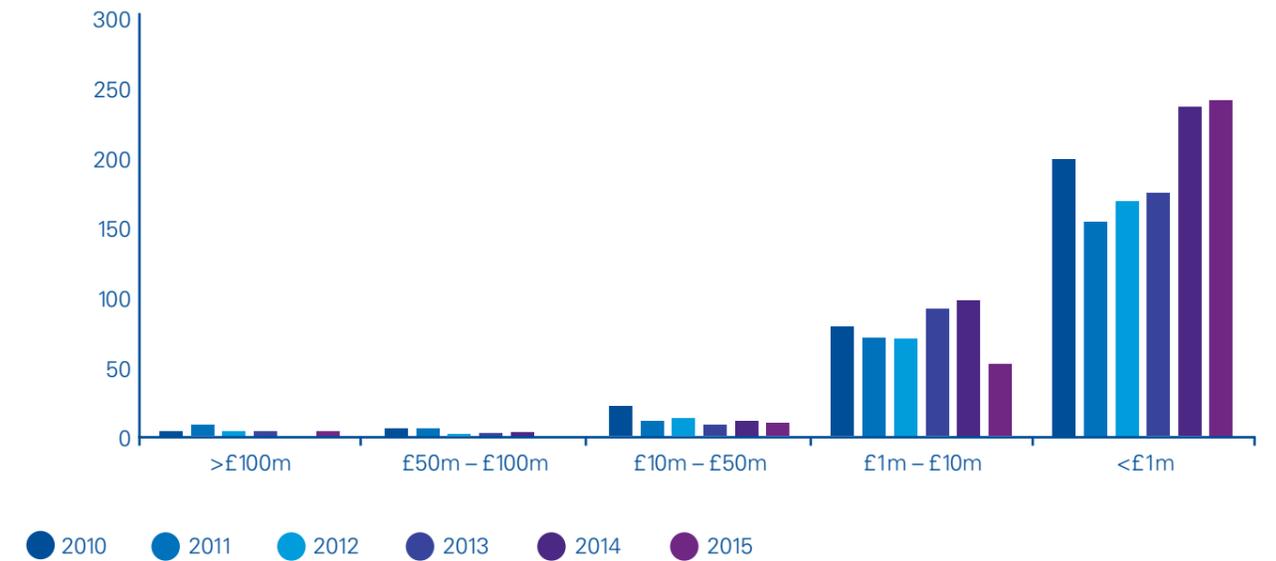


Total value of fraud per year (2010-2015):

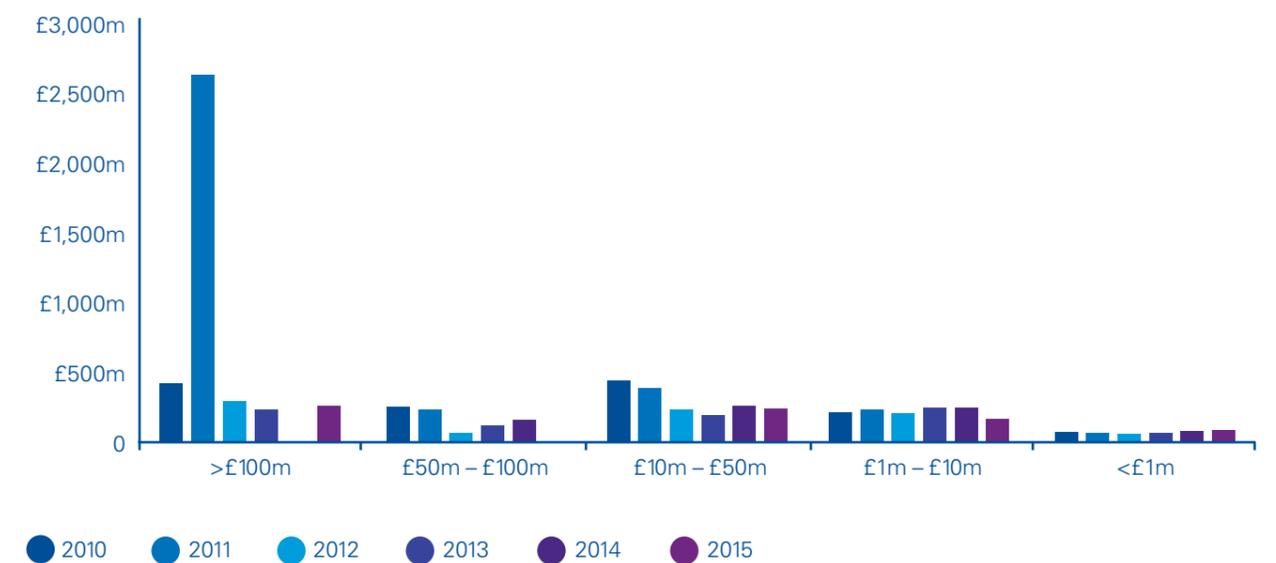


Trend in fraud case value

Volume of fraud cases by value banding (2010-2015):

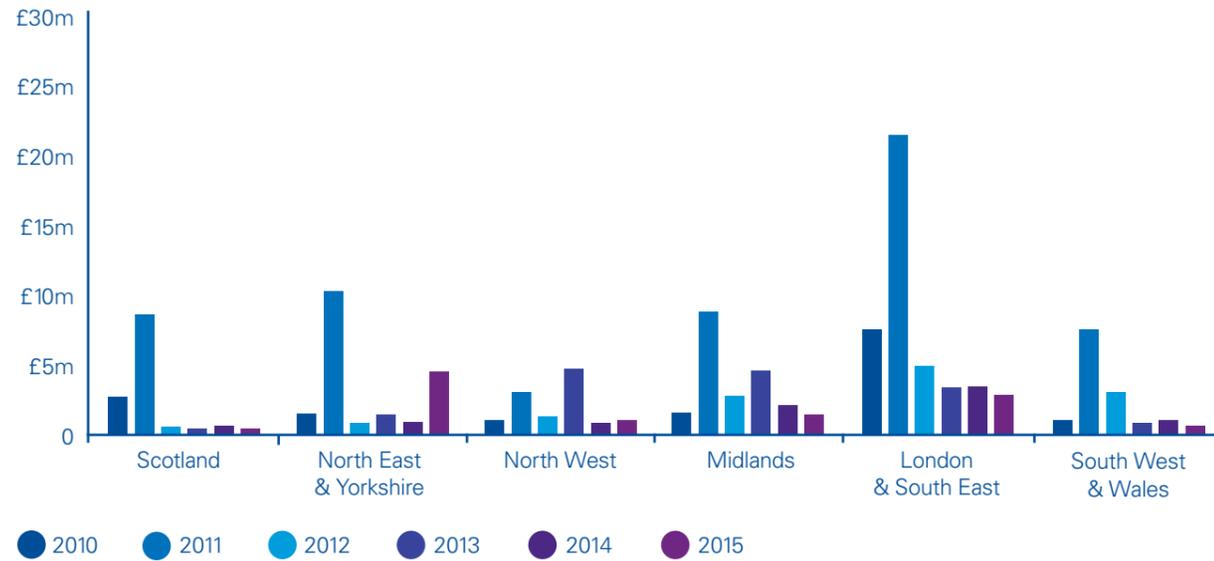


Value of fraud cases by value banding (2010-2015):

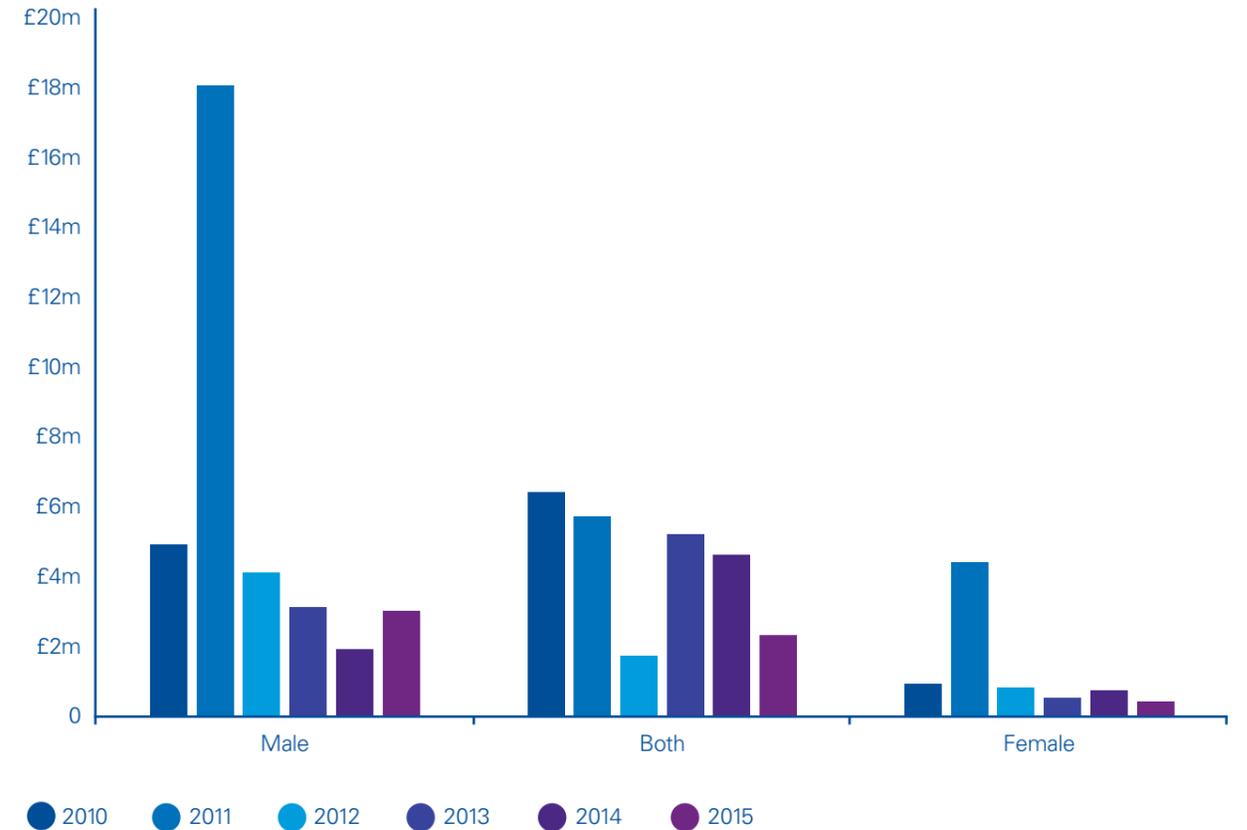


Trend in average fraud value

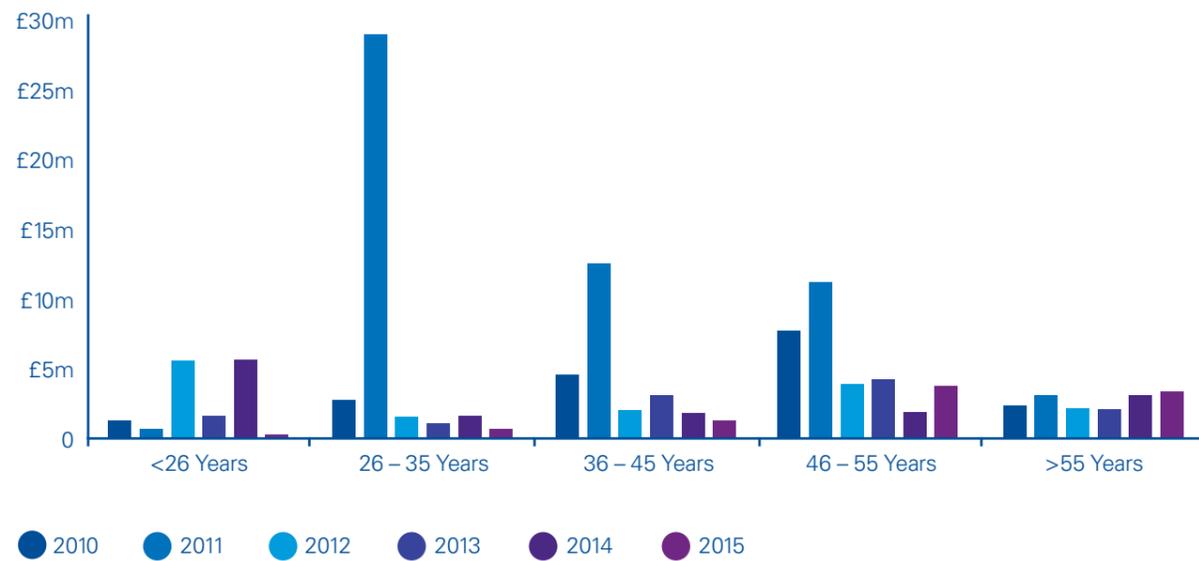
Average value by region (2010-2015):



Average value of fraud by gender (2010-2015):



Average value of fraud by age group (2010-2015):

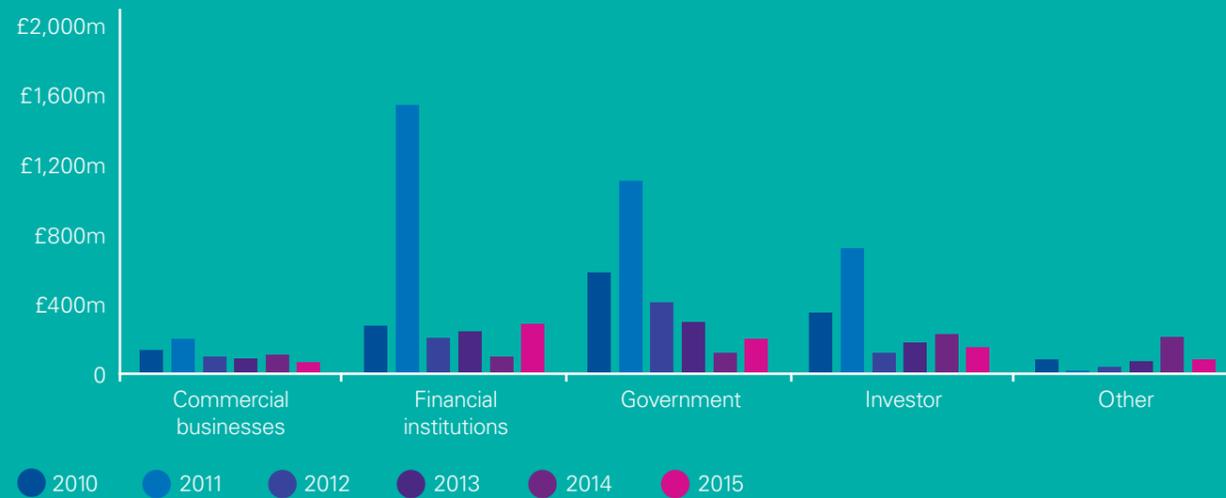


Trend in fraud by victim

Fraud volume by victim (2010-2015):

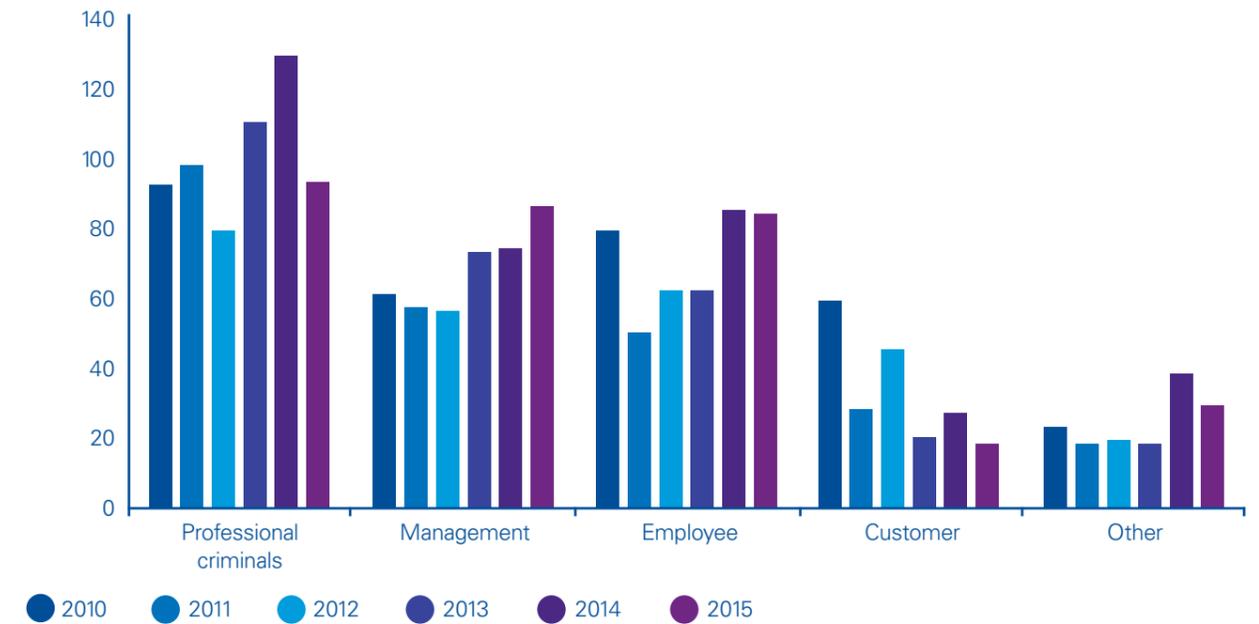


Fraud value by victim (2010-2015):

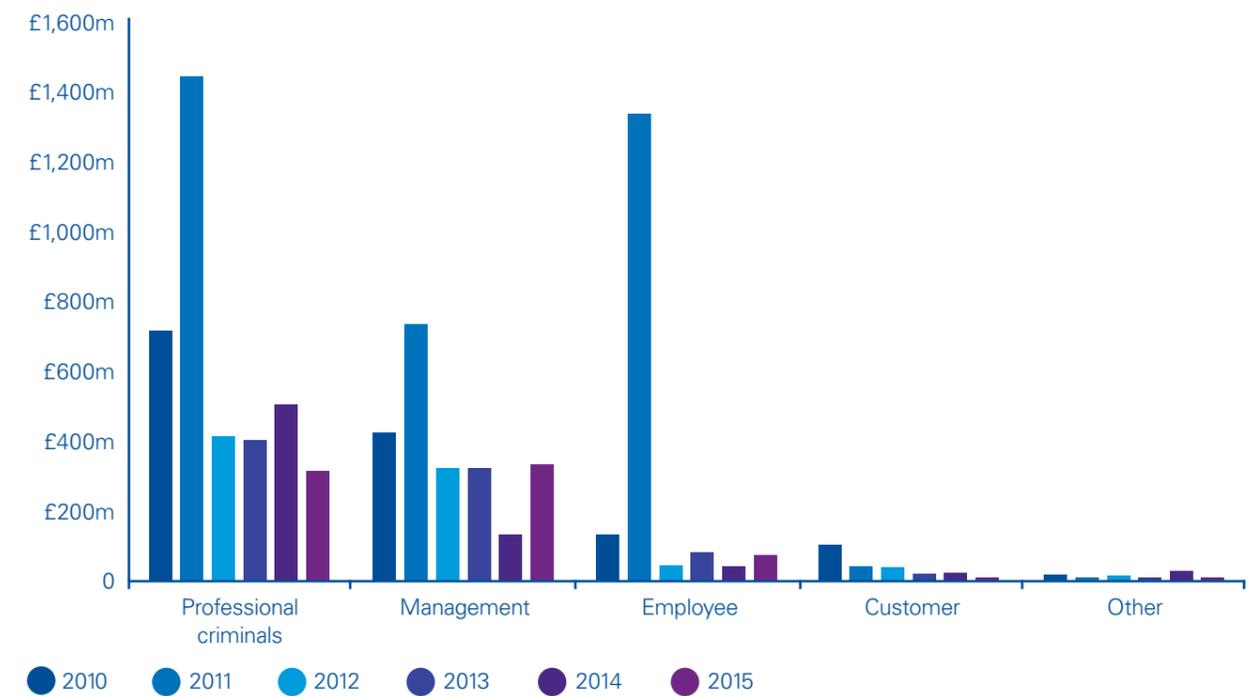


Trend in fraud by perpetrator

Fraud volume by perpetrator (2010-2015):

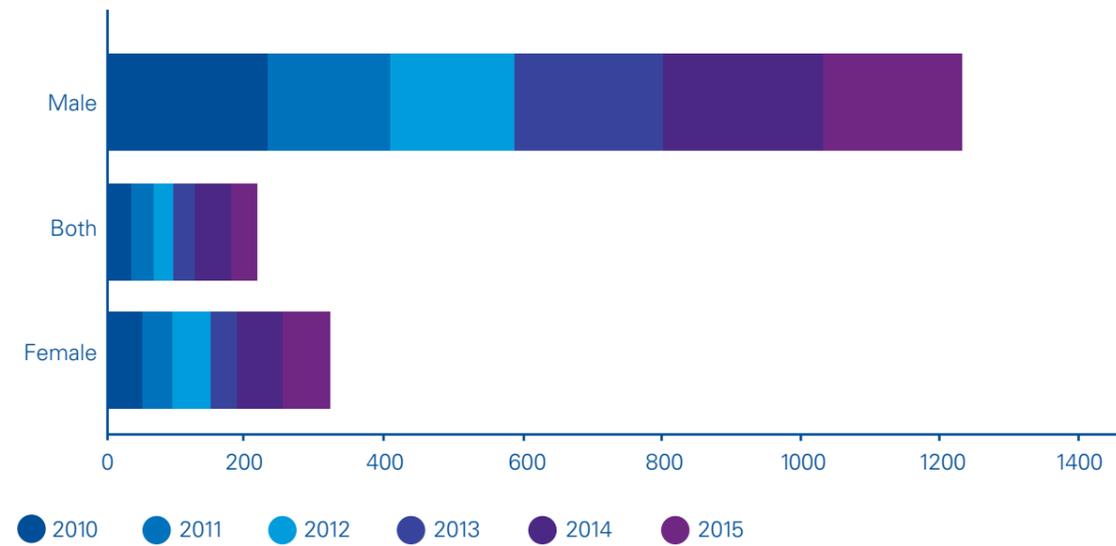


Fraud value by perpetrator (2010-2015):

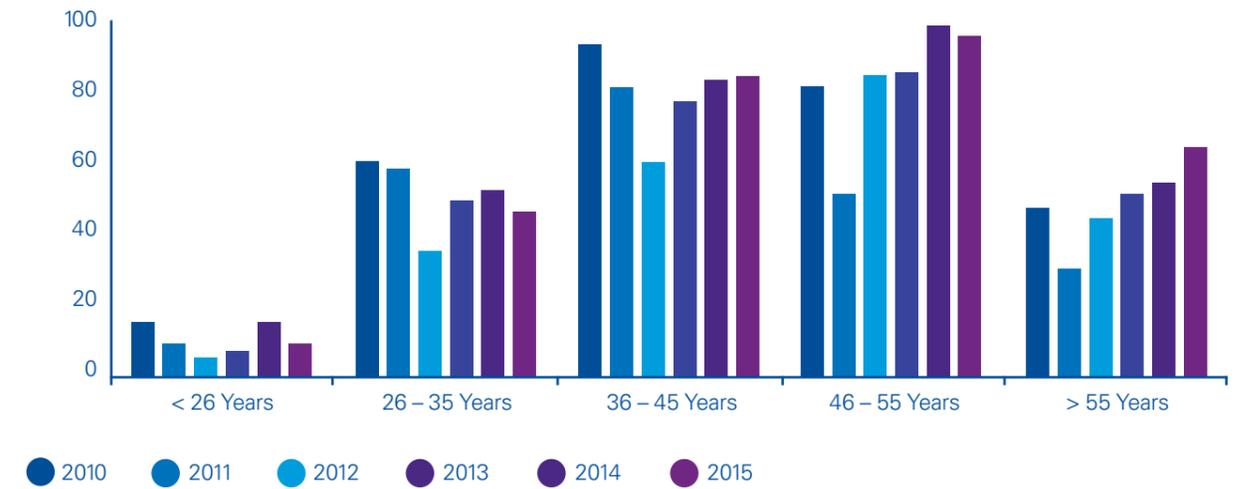


Trend in age and gender

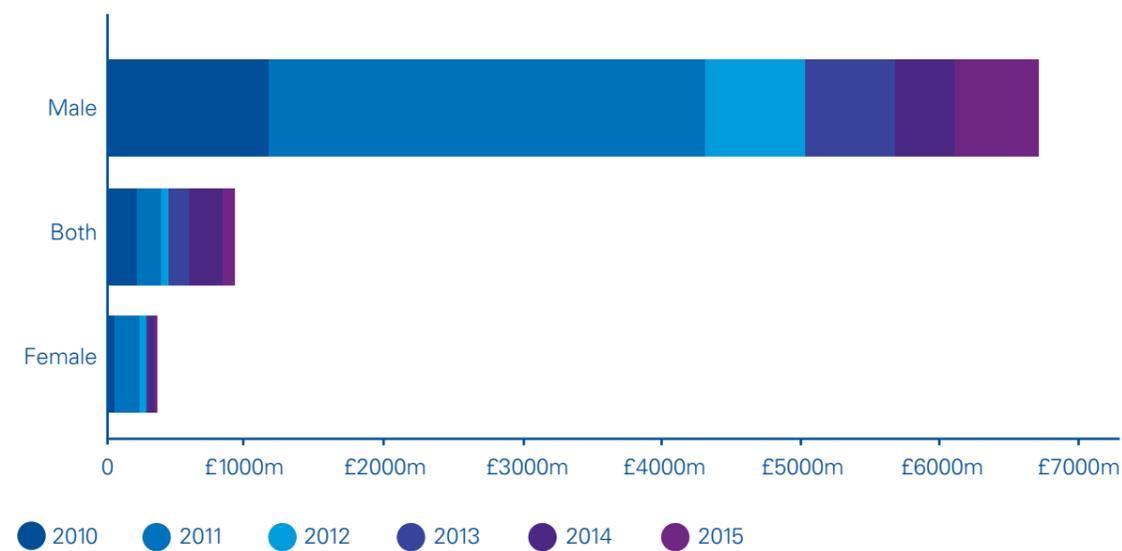
Fraud volume by gender of perpetrator (2010-2015):



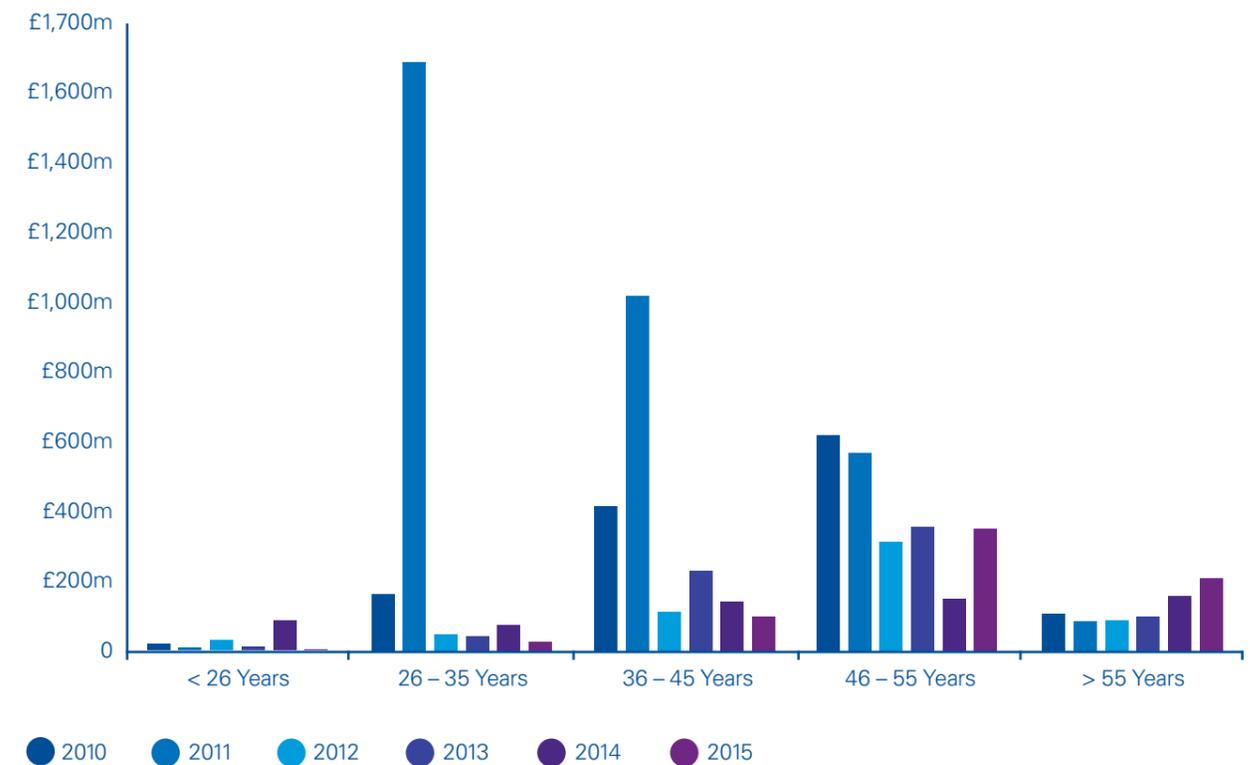
Fraud volume by age of perpetrator (2010-2015):



Fraud value by gender of perpetrator (2010-2015):



Fraud value by age of perpetrator (2010-2015):





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