

Fraudemic: Adding to the evidence base on the scale and impact of fraud on the UK

INTERIM REPORT

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Fraud is being committed at epidemic levels. Yet the impact of fraud is not as well understood as it might be. This paper looks to add to the current evidence base, outlining the key findings from a recent nationally representative survey and a specific survey of fraud victims.

KEY POINTS

- Across the period April 2021 to March 2022, we estimate that there were around 10,800 frauds committed per 100,000 adults in the UK population.
- Fraud victims are not just the elderly – in fact, younger people are somewhat more likely to be a victim of fraud than those over 50.
- Fraud doesn't discriminate by income – although there was a relatively even distribution of victimhood across household income groups between 2020 and 2023, both lower and higher earners were marginally more likely to be victims in that period than those in the middle-income cohorts.
- Email and phone calls were the most common vectors through which the most recent fraud suffered by victims were instigated.
- More than eight in 10 victims in the last three years suffered some sort of direct financial loss from the most recent fraud they experienced.
- The economic and social cost of fraud against individuals in England and Wales in 2021-22 could have been as high as £12.8 billion.
- Nearly a third (31%) of the frauds most recently experienced by victims in the UK between 2020 and 2023 had a “major” economic impact on them. Further, victims that were over 65 suffered the largest direct financial losses on average (£6,758) and, along with those on the lowest incomes (annual income of £20,000 or less), were the most likely to say they experienced a “major” economic impact due to the latest fraud they were a victim of.

ⁱ Peter is no longer involved with SMF but contributed in numerous important ways to the development of this paper. He carried out extensive desk research into the existing evidence base on fraud and the nature of victimisation, as well as designing much of the two surveys, which this paper focuses upon.

- Around seven in 10 victims reported other negative consequences from fraud they experienced, including lower self-confidence, mental health issues and financial disruption.
- People are most likely to report fraud to their bank or building society (56%). A large minority of victims report fraud to the police (31%).

INTRODUCTION

The fraud problem

Fraud is the predominant crime committed against the people of the UK. It is also a crime commonly committed against businesses.ⁱⁱ There are many different kinds of fraud.ⁱⁱⁱ Frauds can be initiated offline (e.g. through stealing personal or financial details or the use of telephones and text messages) or online (e.g. through social media or other platforms, emails, messaging services or illegally accessing personal and financial data held by the victim or third parties).^{iv}

Box 1: Defining fraud in law

Fraud in England, Wales and Northern Ireland is primarily defined by the Fraud Act 2006.¹ It describes fraud as *"the act of being dishonest through false representation or omission or abusing a position of authority in order to make a gain or cause a loss or expose someone to a risk of loss"*.² Notably, the definition in the Fraud Act means that whether there is a gain, loss or exposure to a loss is irrelevant. Consequently, attempted fraud (where the fraud is not successful) is also within the scope of the law.³

In addition, the common law conspiracy to defraud offence remains good law and covers circumstances where two or more people conspire to commit a fraud against a third party.

The Fraud Act 2006 does not apply in Scotland. Instead, fraud is a common law offence that focuses upon someone being deliberately deceived into doing something they would not otherwise have done. In addition, there are specific statutory frauds set out in individual pieces of legislation, such as insolvency, financial services and company law, among others.⁴

Source: Fraud Act 2006, Attorney General's Office (2012), Fraud Advisory Panel (2020).

ⁱⁱ Although the focus of this report is frauds committed against individuals, it is nevertheless worth noting that the Economic Crime Survey 2020 found that around 1 in 5 (18%) businesses had been a victim of fraud in the three years prior to the survey. That suggests around 1 million firms fell prey to fraud of some kind or another between 2017 and 2020. Source: Home Office, "Economic Crime Survey 2020," 2023, <https://www.gov.uk/government/publications/economic-crime-survey-2020/economic-crime-survey-2020>.

ⁱⁱⁱ See Annex I.

^{iv} Specific techniques utilised by fraudsters online include: phishing (i.e. sending spoof emails to fool victims into falling for a fraud), social engineering (i.e. deceiving individuals into sharing personal and financial information), deploying malicious software to access systems and in-turn personal and financial information, purchasing illegally obtained personal and financial data from other criminals, often on "dark web" exchanges. Source: National Audit Office, "Progress Combating Fraud," 2022, Progress combatting fraud (nao.org.uk).

The many complexities associated with fraud

Estimates by the Home Office suggest that around eight in 10 frauds are initiated using computer technology (i.e. cyber-enabled). One of the consequences of technological change has been to enable criminals to increase significantly the scale at which they can initiate frauds against people.^v

Further, modern technology means that frauds can be committed against the people of Britain by criminals residing abroad just as easily as by UK-based criminals, often in places where the arm of the law finds it challenging to reach. One assessment indicated that around two-thirds of frauds involve an overseas element.⁵

The international dimension adds further complications to the fraud problem.⁶ Other contributors to the complex challenge of fraud include the involvement of organised and sophisticated criminals behind much of it.^{vi} ⁷ These gangs ruthlessly exploit ever-evolving technologies and the opportunities they create to commit their criminal acts.⁸

The current counter-fraud landscape

The negative consequences of fraud on a large scale

Fraud has now reached epidemic scale, yet the response in the response from the authorities, as well as the private sector, has been consistently insufficient in the face of the scale and complexity of the problem.⁹ The upshot of the inadequate efforts so far has been increasing amounts of financial, psychological¹⁰ and social harm to a growing proportion of the UK population.¹¹ The fraud epidemic is also generating a set of wider and long-term negative economic and societal impacts.¹² The latter in particular include the weakening of some of the most important building blocks of society such as the rule of law.

The coordination problem

A key reason for the poor response to fraud so far is the presence of a coordination problem. This has three elements. The first is the large number and wide variety of actors with an interest in fraud. The second is the considerable variation in the strength of the incentives for the different actors to take action against fraud. The third is the partial picture (information gaps) that any single actor in the “fraud chain” has about an act of fraud.

^v Emblematic of the scale of attempted fraud is the fact that in a single month, half of the respondents to the CSEW published in March 2022 received a phishing email in the preceding month. Indicating that in any given month, around half of the adult population of England and Wales is subject to phishing. Source: ‘Nature of Fraud and Computer Misuse in England and Wales: Year Ending March 2022’.

^{vi} There is some evidence to suggest that fraudsters more typically operate as part of organised crime. One Police Foundation study suggested that between 31% to 45% of fraud was linked to such gangs. Further, two-thirds of organised crime gangs that committed fraud were also involved in other criminal activity. Source: Sarah Garner, Ruth Crocker, and Michael Skidmore, ‘Organised Fraud in Local Communities’ (Police Foundation London, 2016).

The range of actors with an interest in the fraud problem

The current counter-fraud effort from the state is struggling to keep up with the challenge because it is disjointed and lacks clarity, leadership and resourcing.¹³ Leading the response is the Home Office, which has recently produced a new strategy for tackling fraud more effectively.¹⁴ The strategy presaged the creation of the Anti-Fraud Champion to help ensure the implementation of the fraud strategy,¹⁵ among other reforms.

The National Economic Crime Centre (NECC) brings together key parts of the law enforcement community with an interest in economic crime (including fraud), regulators and the private sector in an attempt to improve the response to economic crime.¹⁶ Those key law enforcement elements include the City of London Police (the national lead force for fraud), the National Crime Agency (NCA), the Serious Fraud Office (SFO), as well as the Crown Prosecution Service. As a result of the division of policing responsibilities, the many individual forces across the UK^{vii} also have an interest and role in tackling fraudsters.

More specifically on fraud, in 2016 the Joint Fraud Taskforce (JFT) was launched.¹⁷ This contains representatives from law enforcement, regulators such as the Financial Conduct Authority (FCA), professional bodies, the private and third sectors as well as other relevant government departments (e.g. the Department for Science, Innovation and Technology - DSIT).¹⁸ It is chaired by a Home Office Minister and aims to encourage a collective effort towards fraud among those represented on the JTF.

In the private sector, financial services companies, a wide range of technology platforms and telephone networks, retailers, accountants and law firms, among many others, have an interest in the prevalence and impact of fraud. However, the myriad actors and interests in each of these sectors means that aligning goals and coordinating actions is at least as difficult as it is in the public sector, if not more so.

The aim of this paper

Tackling fraud begins with understanding its nature and its impact on individuals and society. To that end, this short paper summarises the findings of some recent polling of both a nationally representative sample of the UK population and an additional specific sample of fraud victims.^{viii} By presenting some of the results from those surveys, this paper is able to present a clear outline of the kinds of impact fraud is having on the people of the UK.

This paper is an interim publication from a wider project being undertaken by the SMF. A final and more extensive report, incorporating further research and exploring potential policy responses, will be published later in the year.

^{vii} 43 local constabularies across England and Wales plus Police Scotland and the Police Service of Northern Ireland.

^{viii} Participants in the surveys were asked about their experiences of fraud over the three-year period prior to participating in the survey, which was in the field in late April and early May 2023 (referred to in this paper as 2020 to 2023).

THE FRAUD PICTURE IN THE UK

The amount of fraud committed against the people of England and Wales

Using the findings of the Crime Survey of England and Wales (CSEW), Table 1 shows the total number of frauds reported to the CSEW by victims in England and Wales between 2016 and 2022.^{ix}

Table 1: Total number of frauds committed against the people of England and Wales, 2017 - 2022

Year	Number of frauds
2016-17	3.3 million
2017-18	3.2 million
2018-19	3.7 million
2019-20	3.4 million
2021-22	4.3 million

Source: CSEW

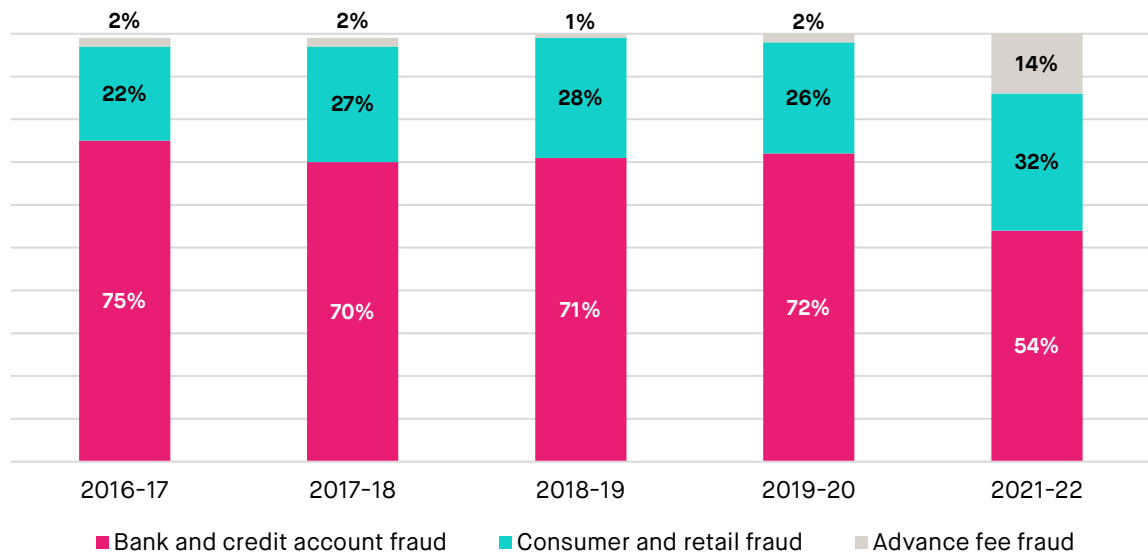
Fraud is the most common crime suffered by the people of England and Wales. It accounts for around four in 10 crimes committed against adult individuals and households.¹⁹ As Table 1 illustrates, the volume of fraud has steadily increased over the period 2016 to 2022.

In 2021-22, there were around 9,810 frauds committed per 100,000 adults in England and Wales.^x Figure 1 shows how the frauds committed against individuals in England and Wales divide up across different categories of fraud.

^{ix} There are no 2020-21 figures due to the COVID-19 pandemic.

^x Calculation carried out using CSEW 2021-22 fraud data and the latest ONS population estimates for England and Wales (mid-2021). Due to limitations in the ONS's population data, the definition of adult used here is persons 20 years of age and over.

Figure 1: Categories of frauds perpetrated against individuals resident in England and Wales, 2017 – 2022



Source: CSEW

The scale of the fraud perpetrated against the people of Scotland and Northern Ireland

Table 2 shows the number of frauds of varying kinds committed against adult residents of Scotland and Northern Ireland in 2019-20. In that year, the cumulative number of frauds suffered by the people of Scotland was in region of 680,000. The total number of frauds perpetrated against residents of Northern Ireland was in the region of 340,000.

Table 2: Frauds committed against the people of Scotland and Northern Ireland, 2019-20

Scotland		Northern Ireland	
Type of fraud	Number of frauds	Type of fraud	Number of frauds
Used card, or card/bank details to obtain money	271,908	Online banking misuse	176,340
Access to social media, email or other online account for fraud	154,081	Scam emails and/or phone call offering a service for a fee	73,475
Scam email – provided bank details/payment	117,826	Online goods – counterfeit, not as advertised or not delivered	49,963
Scam phone call – enabled access to device or paid fee	86,104	Deceit – sending money or personal details or clicking on a fraudulent link/email/text	39,677
Used ID to commit fraud	45,319	Dating fraud	2,939
Dating fraud	4,531	-	-
Frauds per 100,000 of the population	16,460	Frauds per 100,000 of the population	23,120

Sources: Scottish Crime and Justice Survey 2019-20 and Northern Ireland Safe Community Survey, 2019-20

The overall number of frauds committed against the UK population

Summing the various incidents of fraud highlighted in Figures 1, 2 and 3 suggests that, in 2019-20, the cumulative number of frauds committed against the people of the UK was in the region of 4.8 million. This equates to approximately 9,200 frauds per 100,000 adults in 2019-20.

At the time of writing, updated crime survey data from Scotland and Northern Ireland was unavailable. However, assuming a broadly stable fraud situation in both nations but using the 2021-22 fraud incidence data from the CSEW and the most recent ONS population estimates indicates that the UK was likely subject to approximately 10,800 frauds for every 100,000 adults in the population in 2022. This would represent approximately a 17% increase between 2019-20 and 2021-22.

Victimhood across age categories and income groups

The distribution of fraud victimhood in the UK among age and income groups is somewhat skewed towards younger people. Table 3 shows that under 50s for example, are more likely to have been a victim of fraud over the past three years. Those aged between 18 and 34 are nearly 50% more likely to be victims than those over 65.

Table 3: Age distribution of UK victims of fraud, 2020 to 2023

Age cohort	Proportion that are victims of fraud
18-34	17%
35-49	15%
50-65	12%
65 +	12%

Source: *Opinium nationally representative survey*

In broad terms, Table 4 suggests that victimhood is relatively evenly distributed among income cohorts, with some small variation. The data suggest that, across 2020 to 2023, those in the lowest and highest household income groups were slightly more likely to be victims than those in the £20,001 to £80,000 household income range.

Table 4: Distribution of fraud victimhood in the UK across annual income bandings, 2020 and 2023

Annual income	Proportion that are victims of fraud
Under £20,000	17%
£20,001 - £40,000	13%
£40,001 - £60,000	13%
£60,001 - £80,000	15%
Over £80,000	17%
Undeclared	9%

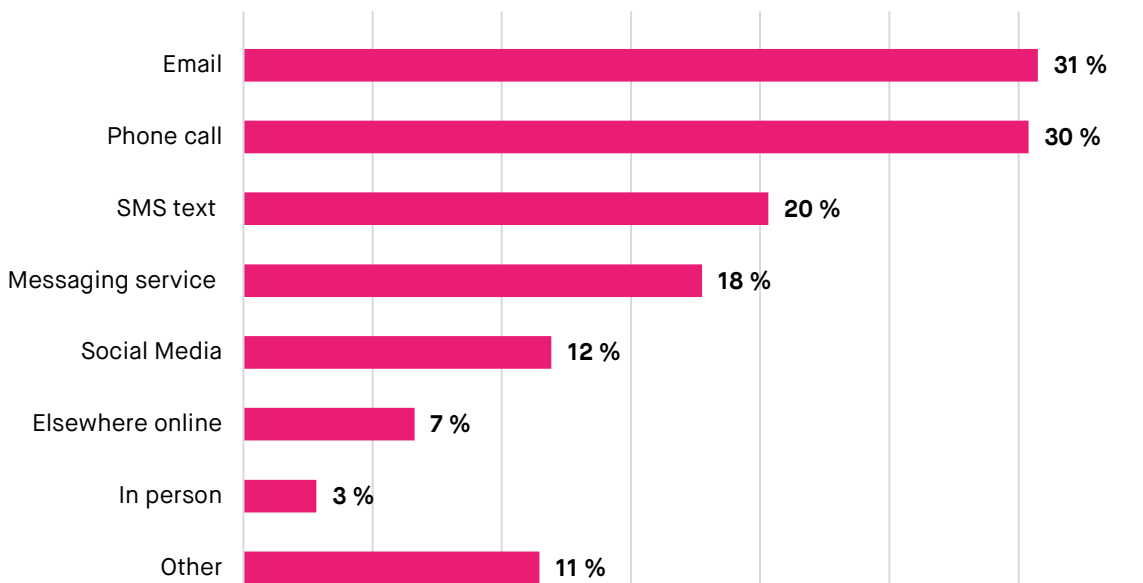
Source: *Opinium nationally representative survey*

VECTORS OF ATTACK BY FRAUDSTERS AND THE SOURCES OF FRAUD DRIVEN FINANCIAL LOSSES

Fraudsters most often attack victims through email and over the telephone

Data from a survey of fraud victims across the UK found that email (31%) and phone calls (30%) were the most common vectors through which frauds were instigated against victims.

Figure 4: Vector of attacks by fraudsters against victims, 2020 to 2023



Source: Opinium survey of fraud victims

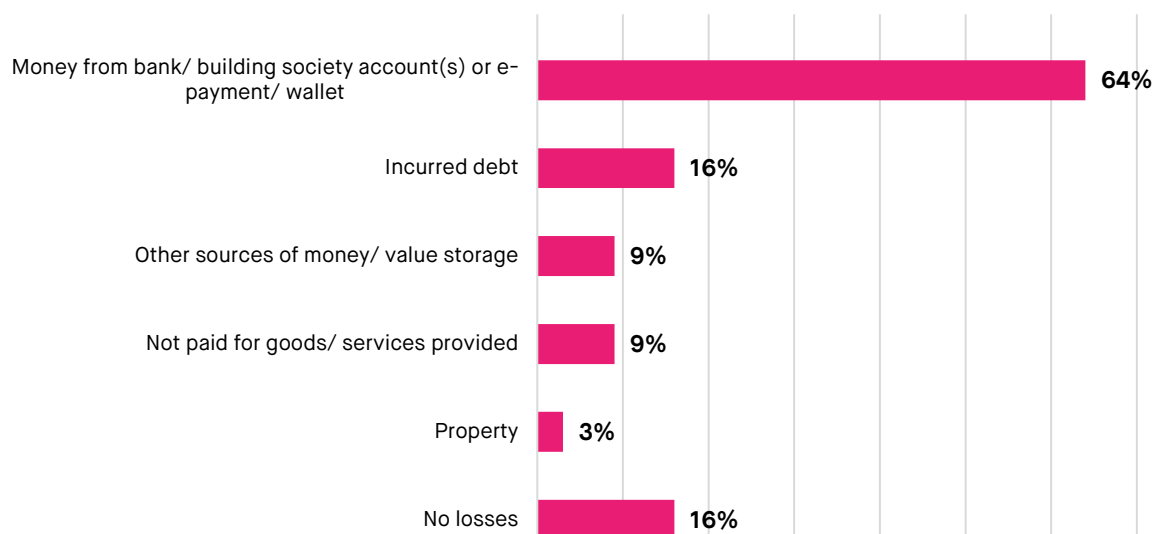
The third and fourth most frequently experienced channels through which frauds were initiated were also messaging mediums (SMS text and messaging services such as WhatsApp).

Banks or building society accounts are, for most victims, the ultimate source of their financial losses

Figure 5 indicates that more than eight in 10 (84%) suffered some sort of direct financial loss as a result of the most recent fraud that they experienced between the period 2020 and 2023.

The majority (63%) of fraud that individuals have suffered over the last three years resulted in financial losses from their bank or building society accounts, or digital equivalents such as e-payment services (e.g. PayPal).

Figure 5: Ultimate source of the financial losses suffered by fraud victims, 2020 to 2023



Source: *Opinium survey of fraud victims*

Around one-in-six (16%) said that the most recent fraud they were a victim of involved them incurring a debt. Just under one in 10 (9%) said that they suffered losses from “other sources of money/value storage”, such as cash or digital currency, or because they supplied goods or services but were never paid for them.

THE COST OF FRAUD

Current estimates of the cost of fraud

Estimates of the cost of fraud to individuals and families, and society more broadly, have varied considerably in recent years. Some of the most prominent estimates are set out in Table 5. The most recent official estimates come from the Government’s recent fraud strategy, which suggested that the cost of fraud against individuals in England and Wales in 2019-20 was around £6.8 billion.²⁰ For context, this sum is equivalent to 43% of the total policing budget of England and Wales for 2022.²¹

Table 5: Variations in recent estimates of the cost of fraud

Source	Year published	Estimate of costs
Home Office Fraud Strategy ²²	2023	£6.8 billion to society and the economy of fraud against individuals
The Financial Cost of Fraud report 2021 ²³	2021	£137 billion to society
Action Fraud 2020-21 ²⁴	2021	£2.35 billion to individuals and businesses
Home Office Economic and Social Cost of Crime report ²⁵	2018	£1,290 per fraud
Annual Fraud Indicator 2017 ^{26 27}	2018	£190 billion cost to the economy (including £6.8 billion to individuals)
Home Office ²⁸	2016	£4.7 billion to individuals

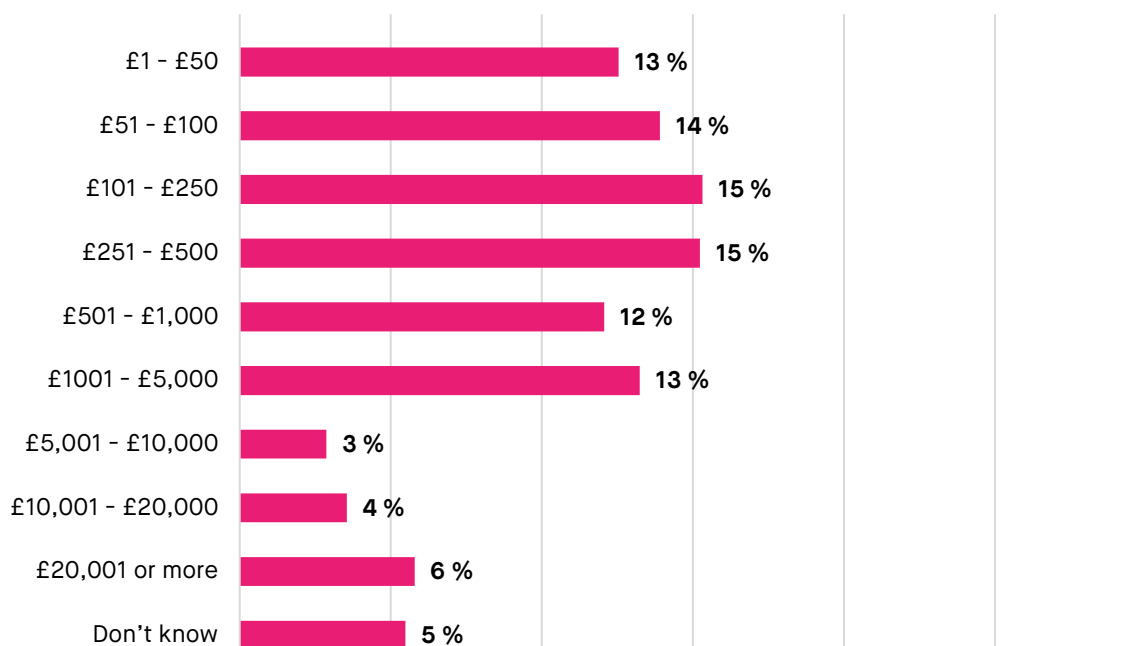
The direct cost of fraud

The amount of direct financial loss suffered by victims

Figure 6 shows that, of the 84% who experienced some kind of financial loss (Figure 5) as a result of the fraud they were most recently victims of, just under six in 10 reported that fraud as involving a loss of less than £500. The average direct financial loss that individual victims suffered as a result of the most recent fraud perpetrated against them was around £2,900.^{xi}

^{xi} This average may be an underestimate. £2,900 is the average of the reported direct financial costs of the most recent fraud that victims were subject to, as reported in the focused survey of fraud victims. In the separate nationally representative survey, also undertaken to inform this report, the average direct losses incurred by victim's due to their most recent defrauding was £3,255.

Figure 6: The direct financial cost of fraud to individual victims between 2020 and 2023



Source: Opinium survey of fraud victims

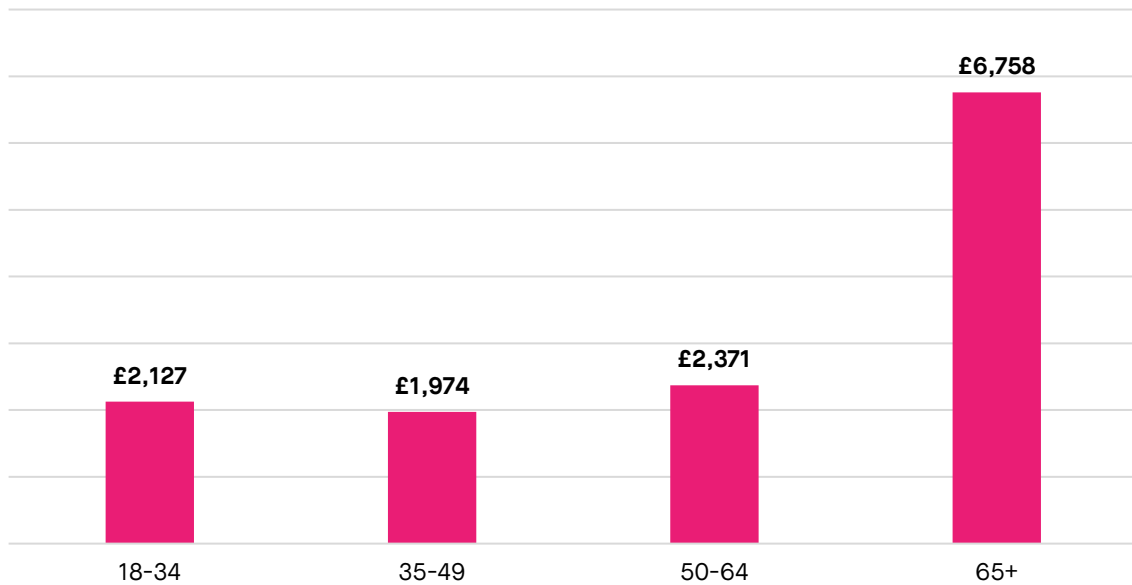
A quarter of frauds involved direct financial losses of between £500 and £5,000. 13% of victims incurred direct financial costs of more than £5,000, including 6% that were deceived out of more than £20,000.^{xii}

The financial cost of fraud across the age and income distribution

The financial impact of fraud is more complicated than the average loss and the total economic and social cost estimates might suggest. For example, as Figure 7 demonstrates, there is a profound age bias in the average amount lost to fraudsters. The average loss of victims in the 65+ age category was £6,758, more than three times greater than the typical loss of victims aged between 35 and 49 years of age.

^{xii} There has been an observed link between the size of the loss and the type of perpetrator. Frauds committed by organised crime gangs tend to result in more significant losses for victims.

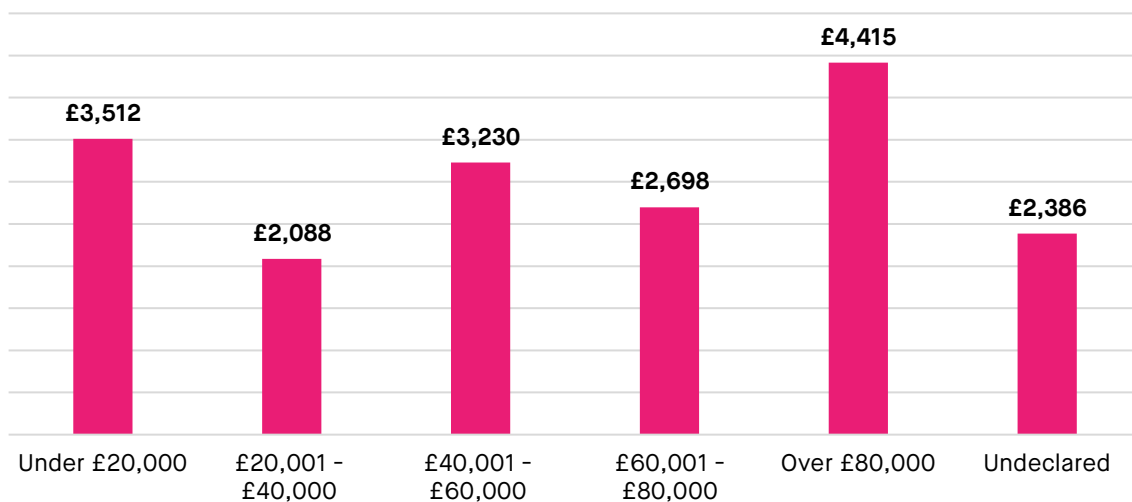
Figure 7: Average financial loss incurred by individual fraud victims in the most recent incident across age cohorts, between 2020 and 2023



Source: Opinium survey of fraud victims

Average direct financial losses as a result of fraud victimisation vary by household income. Figure 8 shows that the range of variation in the average loss across household income groups (i.e. the gap between those experiencing the highest and lowest average loss) is in the region of £2,300.

Figure 8: Average financial loss incurred by individual fraud victims across the annual household income spectrum, between 2020 and 2023



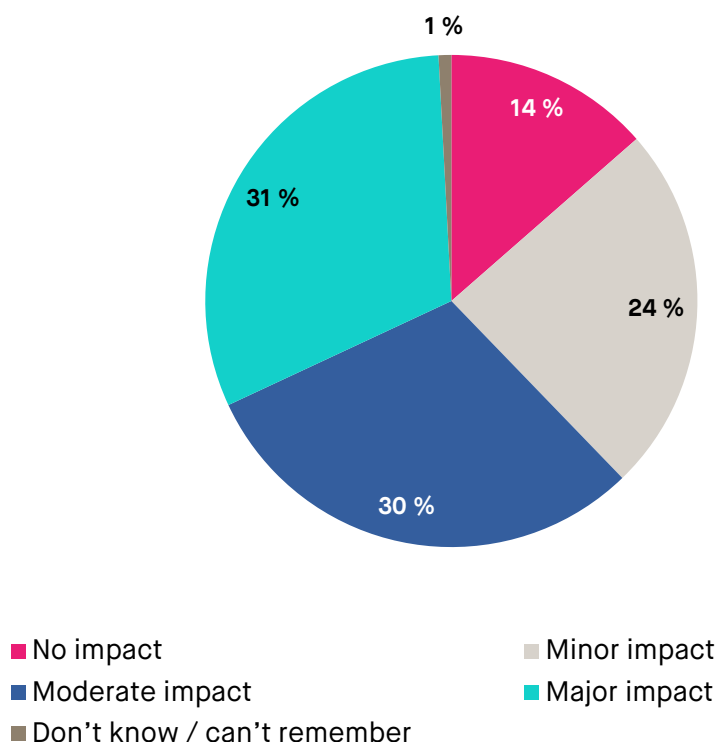
Source: Opinium survey of fraud victims

Victims earning £20,000 and under report the second highest losses on average, while those earning over £80,000 a year suffered, highest average loss.

The economic impact of fraud losses

Figure 9 provides an indication of how impactful, on an individual’s economic situation, the financial losses associated being a victim of fraud can be.. Just over six in 10 (61%) respondents reported that the most recent fraud they had experienced within the last three years had had a “moderate” or “major” economic impact on them.

Figure 9: Economic impact of being a victim of fraud between 2020 and 2023

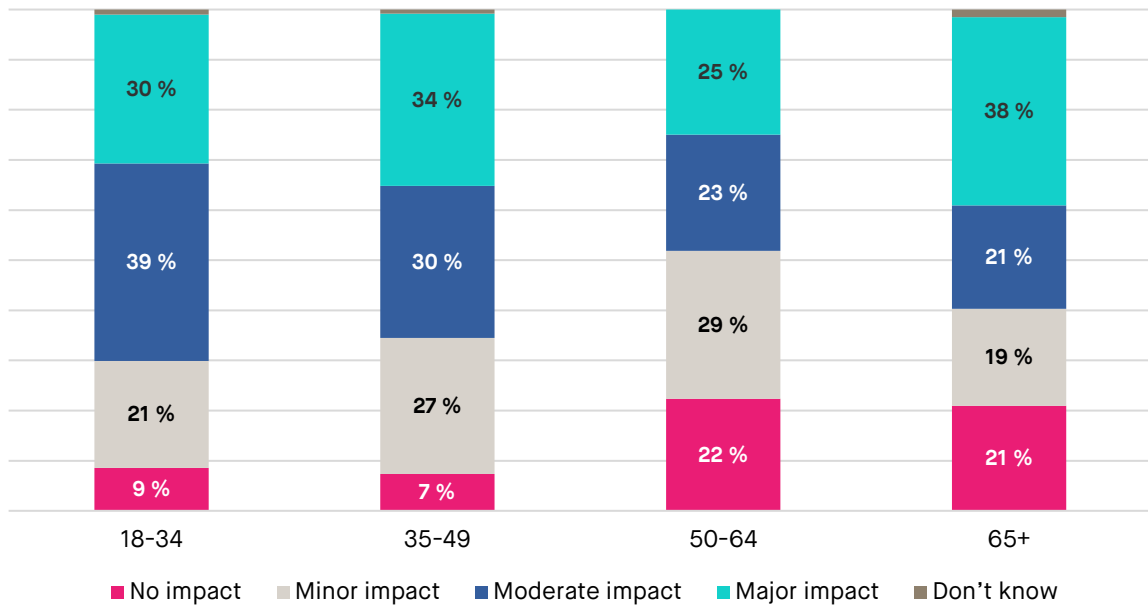


Source: Opinium survey of fraud victims

Combining the proportions set in Figure 9 with CSEW estimates of fraud prevalence implies that under half a million (467,000) frauds committed in 2021-22 against individuals in England and Wales could have had a “major” economic impact on the victims. The equivalent figures for Scotland and Northern Ireland for 2019-20 would be 70,000 and 35,000 incidents respectively.

Figures 10 and 11 show how reports of the severity of the impact of fraud varies by age and household income. Figure 10 illustrates that pensioners are most likely to report having been victims of a fraud that had a major impact on them (38%). Close behind were those victims in the 35-49 years cohort (34%), despite the fact that, as Figure 7 showed, they suffered the lowest direct financial loss. This illustrates that the impact of fraud cannot just be measured by the amount of money directly lost, but has to be understood relative to the circumstances of the individual.

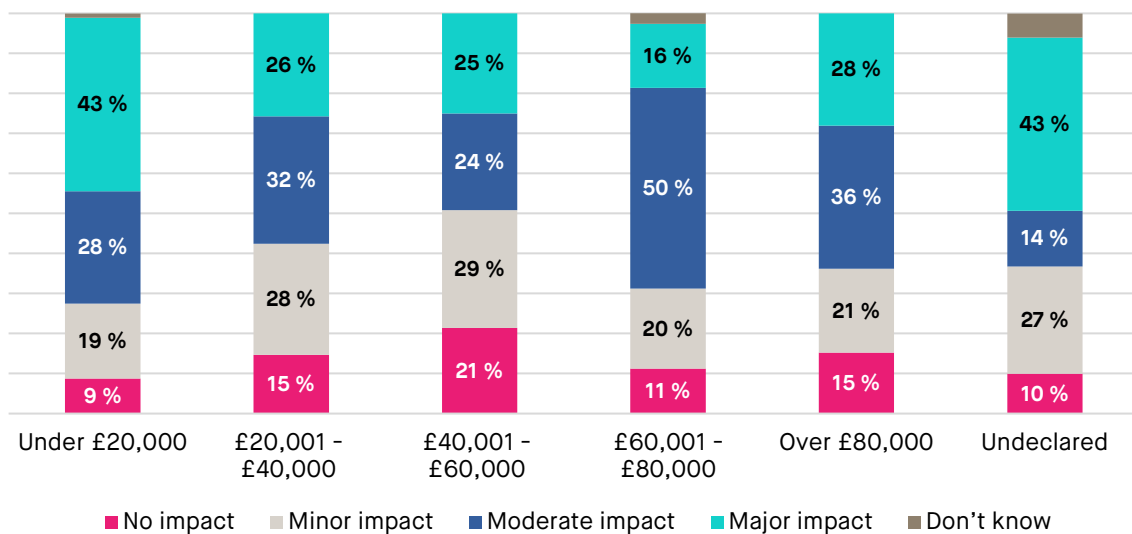
Figure 10: Severity of the economic impact of being a victim of fraud among people of different ages, 2020-2023



Source: Opinium survey of fraud victims

Turning to income, fraud victims earning £20,000 or less a year report most frequently (43%) that the direct financial losses had a “major impact” on their economic situation. Among the lowest paid victims, a further 28% described the impact of the most recent fraud they were subject to as having a “moderate” economic effect. In sum, 71% of those with annual income of £20,000 or less found that the last fraud they suffered from had a “major” or “moderate” economic consequences.

Figure 11: Severity of the economic impact of being a victim of fraud across the annual household income spectrum, 2020-2023



Source: Opinium survey of fraud victims

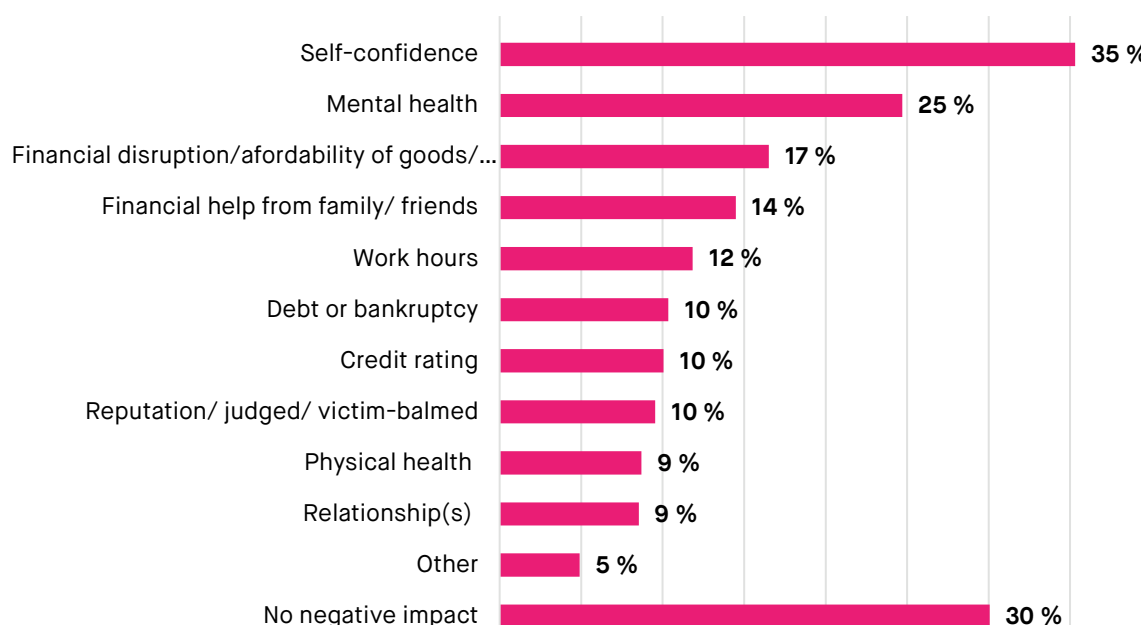
As Figure 8 showed, those earning £20,000 and less per year suffered the second highest average financial loss (£3,512) from the most recent fraud that they experienced. Low-earner victims of fraud appear to suffer particularly strongly, as the size of the average direct financial cost combined with their comparatively low annual earnings increases the relative economic impact of being a victim i.e. the fraud compounds a difficult existing economic situation

The wider costs of fraud

The wider negative impacts of being a victim of fraud are varied and can be substantial

Figure 12 illustrates the extent to which the impacts of fraud are not confined to the direct financial losses suffered, but are much wider and frequently deeper. While three in 10 fraud victims from the past three years experienced no discernible negative impacts from their most recent experience, seven in 10 suffered additional harms.

Figure 12: The wider impacts of being a victim of fraud between 2020 and 2023



Source: *Opinium survey of fraud victims*

The most frequently experienced negative impact beyond any direct financial losses was on self-confidence (35%). The second most frequently cited effect was detrimental mental health consequences (25%). Around one in seven (14%) had to rely upon family or friends for financial help after falling victim to fraudsters, while approximately one in 10 reported consequences ranging from going into debt (10%) to relationship problems (9%).

Estimating the cost of fraud to society

The £2,900 estimate of the average direct financial cost of being a victim of fraud does not reflect any of the wider costs of the crime such as those highlighted in Figure 12. There are other social and economic costs that Figure 12 does not capture, including the cost of taking preventative measures, those associated with the criminal justice response to fraud and lost economic output. An estimate by the Home Office, published in 2018, which tried to account for at least some of these wider social and economic costs (albeit, by no means in a comprehensive way)^{xiii} proposed that the total cost per fraud in 2015-16 was £1,290.²⁹ By broadly replicating the Home Office's approach^{xiv} but using the estimate of the average financial cost of each fraud presented in this paper,^{xv} the evidence suggests that the economic and social cost of fraud against individuals in England and Wales in 2021-22 might have been in the region of £12.8 billion.

The impacts of persistently large volumes of fraud are likely to have socially and economically corrosive consequences in the long-term

Beyond the kinds of negative impacts that are captured by the figure presented above and those costs that aren't but which are no less real (see footnote xii), there is a third category of detrimental consequences that are also a result of a large and persistent volume of fraud. Evidence for them is difficult to quantify. This is because, in some of the instances, the relationship between the fraud epidemic on the one hand and the downstream effect on the other involves a considerable time lag. It is also because, for many individuals the impact at any particular moment in time of these is often comparatively small. Yet, the aggregate repercussions as they accumulate over time become much more substantial.

This third category of consequences range from structural economic changes in the cost of and demand for particular products and services to a fraying of some of the essential elements of the country's social fabric. They include:

- a slow erosion of the rule of law, as long as fraud remains a largely un-investigated and un-punished crime;³⁰
- raising the cost of financial services products for everyone as the extra costs caused by fraud become embedded in expectations and prices, with implications for affordability over the medium to longer-term;
- undermining the public's trust in the financial system as perceptions of it as a substantial source of fraud risk become engrained which, in the long run, could lead to disengagement by many consumers with (at least some) financial products;

^{xiii} The Home Office analysis did not include, for example, all of the sorts of impacts listed in Figure 12 e.g. it failed to reflect the strains on relationships, the disruption to daily economic life such as the ability to pay bills, the increase in debt levels that can result from incurring losses due to fraud or the financial imposition on family and friends, among others.

^{xiv} With some adaptations, which are summarised in Annex II.

^{xv} The 2018 Home Office analysis was based upon 2015-16 data estimated that the direct financial cost of a fraud to typically be £500. This is more than five times lower the average cost suggested by the survey results reported in this paper.

- subsidising other criminal activities such as terrorism,³¹ human and drug trafficking and modern slavery,³²³³ which generate their own negative individual, social and economic impacts;
- fuelling corresponding crimes such as money laundering, as fraud has been identified as the second-largest source of laundered money across the globe.³⁴

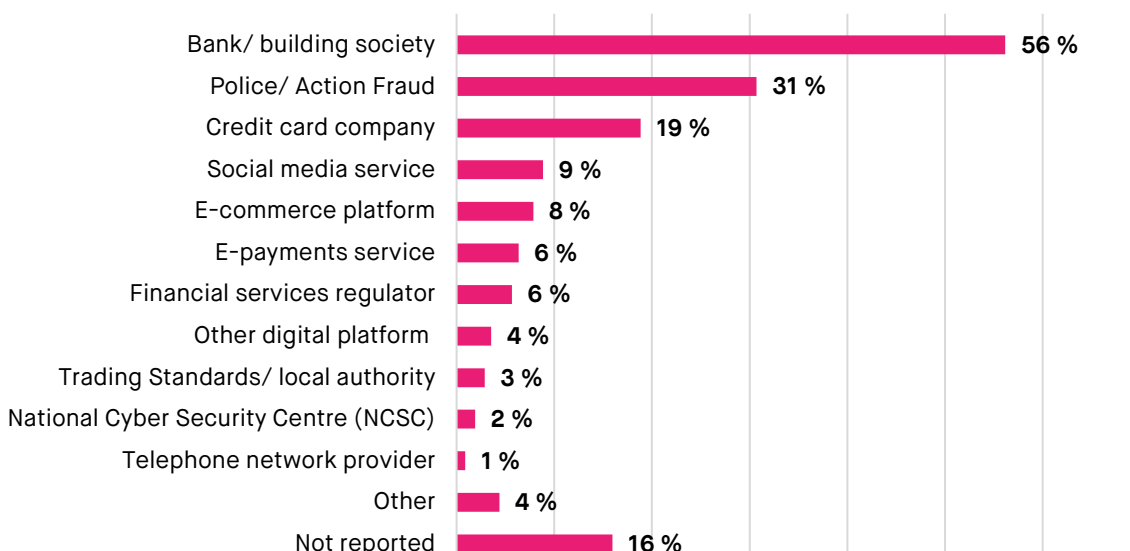
REPORTING FRAUD

In order to tackle fraud, an accurate picture of it is required. The National Crime Agency (NCA) has observed that the absence of a sufficiently detailed picture of fraud due to underreporting is a hindrance to law enforcement efforts to tackle fraud.³⁵

Most victims reported the most recent incident they experienced

Our survey suggests that around one in six fraud victims (16%) do not report their victimisation to any official organisation and therefore 84% do so, whether that is to their bank or Action Fraud or other body they consider relevant (e.g. credit card company). This is a more encouraging state of affairs than that reported by the NCA. The latter suggested that as few as one-in-five frauds are reported.³⁶

Figure 13: Reporting of the fraud most recently experienced by victims, over the period 2020 to 2023



Source: *Opinium survey of fraud victims*

Victims are most likely to report fraud incidents to their bank or building society

The organisation victims most commonly report fraud is their bank or building society (56%). However, the level of reporting of frauds to the police is poor. The survey found that less than a third (31%) of fraud victims over the last three years reported the crime to the police/Action Fraud. Both of these findings reflect those in the CSEW, which finds a similar pattern of victims reporting fraud incidents to their banks much more often than they do to the police.

REIMBURSEMENT

Reimbursement is the refunding of defrauded monies to the victim. This is typically done by the financial institution, such as a bank or building society, where that defrauded money was stored by the victim.

Box 2: Reimbursement in the UK

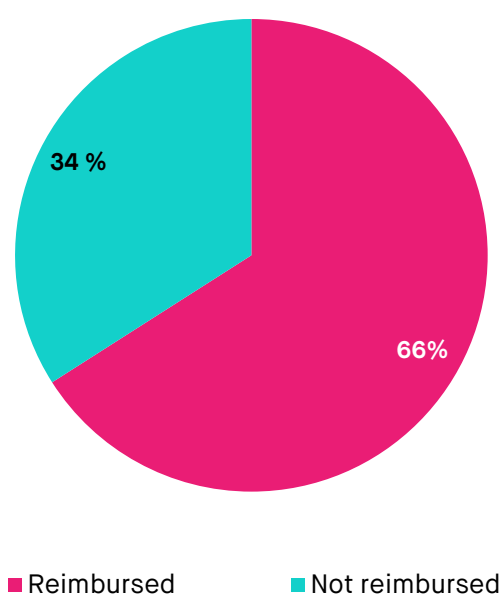
The biggest UK banks have been signed up to an optional “Contingent Reimbursement Model code”, which means that signatory institutions will refund victims of authorised push payment fraud if it wasn’t reasonable to expect the consumer to have protected themselves.³⁷ However, the code does not apply to cash, cheque, credit or debit card payments and not all banks are signatories to the code.

The Payment Services Regulator (PSR) are currently putting in place a policy of requiring banks to fully reimburse victims of frauds such as authorised push payment fraud, in addition to banks’ duties to reimburse for unauthorised payments.³⁸ The higher bar for refusing reimbursements in the new rules, is likely to mean only the most careless consumers would be denied refunds.^{39,40}

Reimbursement of direct financial losses to victims is common but a large minority do not benefit from such measures

As Figure 14 shows, around a third (34%) of those in the UK that were victims of fraud in the last three years reported not being reimbursed at all for the most recent incident that befell them. Two-thirds were reimbursed.

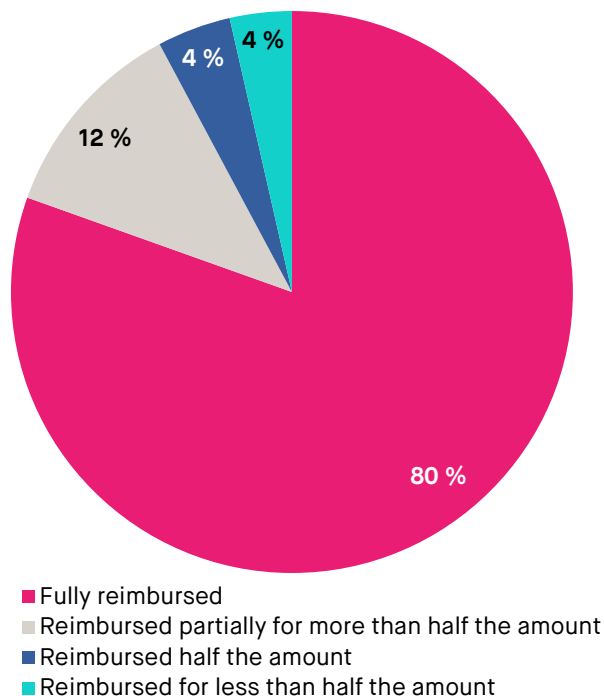
Figure 14: Proportion of fraud victims that are reimbursed for direct financial losses



Source: Opinium survey

Figure 15 illustrates that the vast majority of those that received reimbursement (80%) were reimbursed fully for the direct financial losses they suffered. However, one in five were not.

Figure 15: Proportion of losses reimbursed to victims of fraud



Source: *Opinium survey*

The changes to the rules around reimbursement should see the third of victims not reimbursed after being defrauded reduced.⁴¹ Further, the proportion of those who were only partially reimbursed should also fall in the future. While this may be welcomed by many, it is a policy change that has been subject to considerable contention. The extent to which it might help incentivise efforts to create better protections against fraud is yet to be seen. If it does not, reimbursement will ultimately result in the cost of fraud shifting from one place to another (see Box 2 for more on this debate).

The debate over reimbursement as an effective policy

The issue of reimbursement is emblematic of the coordination problem at the heart of the fraud challenge and how difficult it is to solve. There are questions as to whether it creates the right incentives for some of the key actors within the fraud landscape. It also raises moral questions about fairness and in particular behaviour and deserts.

Box 3: Reimbursement and the debate over incentives and deserts

Some argue that reimbursement liability creates an incentive for those actors in the “fraud chain” that have to compensate victims for losses (i.e. banks) to effective steps that will reduce the amount they’re paying out. The reimbursement burden forces the liable organisations to internalise the costs and consequently results in banks developing a strong interest in dealing with the problem. Others suggest that the “cushion” of reimbursement disincentivises cautious behaviour by consumers because ultimately, they believe they won’t financially lose out from being a victim of fraud.⁴² Therefore, consumers are less likely to take the kind of precautions that would reduce their exposure to fraud threats.⁴³

There have been suggestions that regardless of the incentive effects, compensation should be dependent on behaviour. For example, that reimbursement should reflect deserts and those who recklessly contribute to their being a victim of fraud, for example, should not receive reimbursement or at the very least not be fully reimbursed. The counter argument for reimbursement in all circumstances can be made on the grounds that victims should not be blamed for the crimes perpetrated against them, even when they may, unwittingly, have enabled the crime. This latter point is perhaps made most vociferously when the asymmetries between the malevolent sophistication of the organised crime gangs perpetrating much of the fraud and the vulnerabilities and ordinariness of many of the victims, are highlighted.

Another argument raised by defenders of reimbursement is to point out the fairness of having the costs fall on the broadest shoulders (e.g. the bank) because vulnerable consumers in particular, who have lost money, are not always well placed to bear them (see Figure 11). Further they are likely to be suffering additional detriment as a result of being victims (see Figure 12).

There are equally important questions as to whether, in practice, the current approach to reimbursement is appropriately designed and implemented or not, and if the ultimate aim is to maximise protection against fraud or prevent it.

WHAT NEXT?

This paper sets out some of the contours of the fraud victimisation landscape. It will be followed by a more detailed report in the autumn. That report will include evidence on the impact of fraud from a series of in-depth interviews with victims, as well as further exploring more of the data from the two surveys that this report focuses upon. It will also summarise insights from an expert roundtable on the counter-fraud policy landscape.

That paper will consider the issues of reimbursement and the appropriate balance between privacy and security on the one hand and greater frictions for accessing services to enable the police to pursue fraudsters on the other. Ultimately, the forthcoming final report will consider how counter-fraud policy might be changed to better align with public preferences about how best to tackle fraud.

ANNEX I: TYPES OF FRAUD THAT INDIVIDUALS FALL VICTIM TO

Many different types of fraud

There are many different types of fraud. Table 6 offers a non-exhaustive list of some of the most common kinds perpetrated against individuals in the UK.

Table 6: Common types of fraud

Fraud type	Authorised/unauthorised ⁴⁴	Description
Bank card or cheque fraud	Unauthorised	Stolen card or cheque, or personal card or chequebook information, is used to commit fraud. Fraudsters typically use the card(s) or details to purchase goods or obtain unauthorised funds from victim's accounts.
Identity fraud	Unauthorised	Fraudsters steal the identity of an individual then use the details to obtain credit cards, loans and state benefits or passports and driving licences, take out mobile phone contracts or open bank accounts in the name of the person whose identity has been stolen.
Shopping fraud	Authorised	Fraudsters use a fake online presence (e.g. a website) in order to steal personal details and money.
Advance fee fraud	Authorised	Fraudsters target victims with offers of goods or services or financial gains if they pay in advance/upfront. The goods or services are never supplied or the gains are never realised.
Romance fraud	Authorised	The victim is befriended on the internet and convinced to assist their new "friend" financially.
Investment fraud	Authorised	Victims are offered the opportunity to make a return on an investment. Such investments can include shares, foreign exchange dealing gains, the opportunity to buy rare goods and other enticing assets.
Counterfeit goods fraud	Authorised	Victims are sold goods such as designer clothes and accessories, electronic products, etc, which purport to be authentic but are not.

Vishing fraud	Authorised	Fraudsters call a victim under the pretence that they are from the victim's bank trying to deal with an attempted fraud or are from another service provider experiencing a payment problem, in order to get the victim to divulge personal and financial details, which the fraudsters can then use to ultimately obtain money.
Courier fraud	Authorised	Fraudsters contact victims claiming to be from HM Revenue and Customs, police officers or bank officials and ask the victims to co-operate with an investigation into an alleged crime such as a fraud. Victims might be asked to withdraw money or purchase an expensive item. Fraudsters pretending to be from the victim's bank might ask the victim to activate a replacement card as they have been deceived into thinking their old one has been compromised. By doing so the victim gives away important personal or financial information, perhaps sending their supposedly compromised card back to the bank, which is picked up by the fraudster or it is couriered to the fraudster.

Sources: NAO (2022), Action Fraud and Experian

ANNEX II: CALCULATING THE COST OF FRAUD: ADAPTING THE HOME OFFICE'S METHODOLOGY

Adaptions to the Home Office's methodology for calculating the economic and social cost of a fraud

- We updated to 2022 prices the individual components of the economic and social cost of a single fraud estimated by the Home Office in their 2018 analysis of the cost of fraud. The latter was based upon 2016 costings. For example, the Home Office estimated the value of lost economic output due to a single fraud was around £60 in 2016 prices. In 2022 prices this is £72.54 worth of output.
- We swapped out the £500 direct financial loss used by the Home Office with the average direct financial loss of £2,900 identified in the survey of fraud victims which informs this paper and which is described on pages 17 - 18.
- We removed the itemised criminal justice costs from the calculation. The poor police response to fraud makes it difficult to justify the routine inclusion of these costs because the criminal justice response to fraud is inadequate, with very few frauds investigated and perpetrators arrested and taken to trial in a comparatively few cases (one estimate suggested around 0.1% of frauds resulted in an arrest to summons).⁴⁵ Therefore, in order to reflect this, these costs are excluded from the estimate presented here.
- Both the nationally representative survey and the survey of victims that inform this paper found that more than eight in 10 victims incurred at least some losses. Given that there were 3.6 million frauds with an average economic and social cost of £3,565 per fraud, this indicates that the economic and social cost of fraud perpetrated against the people of England and Wales in 2021-22 could have been in the region of £12.8 billion.

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