The view from the ground: Building a greater understanding of the impact of fraud and how the public view what policymakers should do about it

TWO MINUTE SUMMARY

September 2023

SMF Social Market Foundation

The challenge of fraud

The UK is experiencing a "fraudemic". The cost of fraud against individuals in 2021-22 was around £12.8 billion. Polling suggests that as much as 9% of the UK's population fell victim to fraud in the same year.

Yet the threat of fraud has remained neglected in political debates about crime. Due to persistent under-reporting, fraud is less visible and therefore easier for politicians and policymakers to ignore than other types of crime. This has contributed to a substantial, long-running evidence deficit and meant that there has been insufficient research into understanding fraud. As a result, the effort to tackle fraud has been of limited effectiveness.

Nonetheless, the widespread nature of fraud is making the problem increasingly difficult to avoid. Serious attention must be devoted to the issue if the fraud epidemic is to be tackled effectively. This report – drawing on surveys of the general population and of fraud victims, interviews with fraud victims and an expert roundtable – seeks to shed light on this important issue.

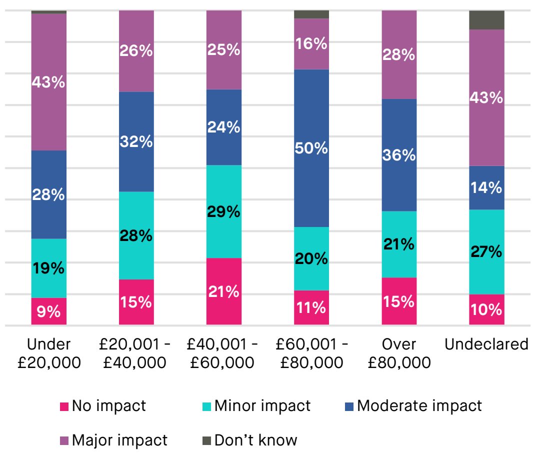
The impact of fraud on its victims

Economic impact

Fraud has a significant economic impact on its victims. Six in ten (61%) of fraud victims reported that fraud had had a 'major' or 'moderate' negative impact on their economic circumstances.

The scale of this impact varies somewhat according to the victim's socioeconomic circumstances, as similar financial losses affect those on low incomes or with cash flow difficulties harder than those who are better off. Victims of fraud on annual incomes under £20,000 were more likely (71%) to report it having a "major" or "moderate" impact on their economic circumstances and only 9% reported it having no impact.

Figure 1: Severity of the economic impact of fraud on victims across income groups, 2020-2023



Source: Opinium survey of fraud victims

Age also affects the scale of the economic impact of fraud on victims. Victims aged 65 or over were the more likely to report having suffered a 'major' economic impact (38%).

Broader impact

Fraud also generates considerable broader, second-round effects. Significant minorities of victims reported detrimental impacts to their confidence (35%) and mental health (25%), with some also reporting harm to their relationships and physical health (both 9%).

This impact also varies according to socioeconomic circumstances and age. Victims with annual incomes below £20,000

Kindly sponsored by

Nationwide Building Society

were most likely (82%), along with those earning between £60,001 and £80,000, to report at least one second-round effect. Victims between 18-34 years of age were the most likely (79%) age group to report at least one second-round effect, though those aged 65 or over were most likely to report negative impacts on their self-confidence (43%).

Policy questions

Reimbursement

The process of reimbursement can make the impact of falling victim to fraud worse. Not all fraud victims receive compensation in full or even in part – over a third (34%) of victims reported that they had not received any reimbursement. Even among those who were reimbursed, 22% found the process very difficult, and interviews with victims indicate that this difficulty compounded the negative impact of falling victim to fraud.

This should be a concern for banks, as victims' perceptions of poor customer service after they are defrauded can result in lost customers. Some fraud victims shared that the lack of support or concern from their bank led them to change provider shortly afterwards.

Collective action problems

Effectively tackling fraud requires two collective action problems to be overcome. Our expert roundtable highlighted that the "fraud chain" is complex and encompasses a range of private sector institutions, from social media platforms to financial services firms. Any one institution that takes significant action to tackle fraud is likely to incur costs that leave it with a competitive disadvantage against other companies operating in the same sector. To further complicate the problem, unilateral action by individual companies is unlikely to tackle the problem effectively, as the process of committing fraud takes place across multiple services.

A similar lack of coordination hampers the public sector response to fraud. The current organisation of counter-fraud policing is widely agreed to be failing. Responsibility for fraud falls on a wide range of police forces and agencies across the UK, not to mention the diversity of government departments and regulators with an interest in tackling fraud.

Public opinion on key policy debates

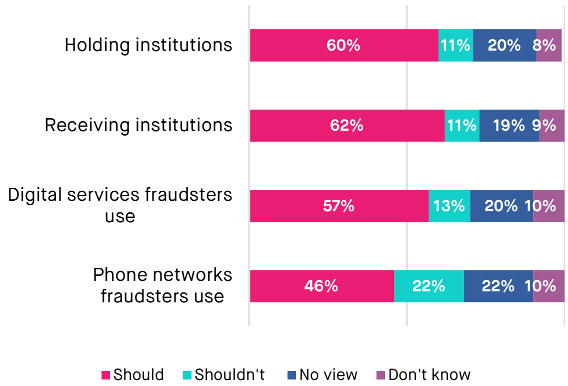
Although the public share the expert consensus that policymakers' response to fraud has been inadequate, their views have been largely absent from the debate over how fraud should be tackled. Our surveys shed light on some of their perspectives on how to tackle fraud.

Reimbursement and liability

The public have a nuanced view on reimbursement policy. While the public overwhelmingly consider that there should be some reimbursement in all cases of fraud, support for full reimbursement was lower for cases where the victim plays a role in enabling the fraud to take place. 43% supported full reimbursement where the victim played a role in enabling the fraud, as opposed to 73% where there was no role played by the victim.

Most Brits believe the liability for reimbursement should be shared across institutions. Around six in ten believe that holding and receiving financial institutions should be liable for reimbursement, while 57% and 46% respectively believe that digital services and telecoms networks should also bear liability.

Figure 2: Support for liability being placed on different actors in the fraud chain



Source: Opinium survey of the UK adult public

Increasing assurance in the payments system

Both the general population and fraud victims would accept slower payments and transfers to reduce fraud risk. 70% of the general population and 73% of fraud victims agreed that it was more important to have stringent checks and verification than speed and convenience when making payments and transfers.

Data sharing

The public are less keen on greater data sharing to tackle fraud. 38% of the general population felt it was better to keep their data private and secure, even if this made data sharing to tackle fraud more difficult, as opposed to 31% who felt the opposite. However, fraud victims were more likely to be in favour of prioritising data sharing (40%) than data privacy (34%). Victims were also more likely to support law enforcement having access to the data they need to pursue and disrupt fraudsters, even if this meant that ultimately data might be less secure.

Experts at our roundtable agreed that this indicates that more effort must be made to persuade the public of the necessity of data sharing for a successful response to fraud.

Recommendations

- Help improve politicians' and policymakers' understanding of the fraud threat with a specific multi-year, funded research programme.
- Reform fraud reporting to close the "reporting gap".
- Under the auspices of the Consumer Duty, best reimbursement practices should be developed by the regulator, alongside a requirement for relevant financial institutions to systematically integrate access to official victim support services.
- Develop a robust standard methodology for capturing more definitively the differential impact fraud has on a victim's economic circumstances and the wider psychological and social costs that can accrue.
- Toughen the sentencing of convicted fraudsters with reforms to the rules so that they take into account the wider impacts that victimisation has on individuals and also reflect the scale and cost of the fraud epidemic.
- Establish an arrangement for providing short-term financial support for victims of serious physical crimes, for vulnerable fraud victims.
- Banks, building societies, credit card providers and other payment services firms that reimburse fraud victims should evaluate their reimbursement offers to ensure they meet high customer services standards, and they are especially sensitive to vulnerable customers who have been fraud victims.
- Start the process of developing a new set of policy proposals, for introduction in 2025, for improving the coordination of the fraud response by solving the collective action problems, including the measures proposed in later recommendations.
- Prioritise the fraud threat with new investment in the capacity and capability of the law enforcement and criminal justice system.
- Continue with the PSR's reimbursement plans to share liability between "holding" and "receiving" institutions and prepare for a second phase, where other organisations in the "fraud chain" are made eligible for some of the costs of reimbursement.
- Introduce more "frictions" into the payments system by placing stronger obligations on financial services firms in the "fraud chain" to lower fraud risks for customers so that there is greater assurance over the legitimacy of payments and transfers, including the provenance of senders and receivers of payments and transfers.
- Develop a more extensive and deeper data sharing arrangement across the organisations that are part of the "fraud chain" and between the private sector and appropriate parts of the public sector.
- Set-up a national ID protection service to help reduce the risk of ID related fraud.

The Social Market Foundation is Britain's leading cross-party think tank.
A registered charity, our mission is to educate the public and their representatives about how better policies can deliver greater wealth, happiness and fairness.

Social Market Foundation, 5-6 St Matthew Street, London, SW1P 2JT
www.smf.co.uk | @smfthinktank
Contact | richa@smf.co.uk

SMF Social Market Foundation