WHAT DO CONSUMERS REALLY THINK ABOUT FRAUD?

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Executive summary

The current economic climate continues to put pressure on consumers, with rising living costs reducing ‘real’ incomes. The financial crisis has also changed attitudes to big businesses, with the financial services sector in particular receiving a negative reception from some elements of the media and some consumers.

Could the combination of these challenges be influencing consumers’ propensity to be less than truthful on credit applications or insurance claims? In what instances do consumers consider it acceptable to ‘lie’?

These questions, and other issues relating to credit and insurance fraud, were put to more than 2,000 consumers in YouGov research, commissioned by Equifax, to gain a greater understanding of attitudes to fraud. The survey was carried out online from 1st – 4th November 2013 and the results were weighted to be representative of all UK adults aged 18+.

The results of the research suggest that attitudes to fraud are significantly influenced by the financial climate; a fact underlined by industry data. Figures from CIFAS, the UK’s Fraud Prevention Service, show that, despite a 12% drop in credit fraud 2012–2013, fraud remains much higher than it was before the recession. The Association of British Insurers also estimates undetected general insurance claims fraud to be a staggering £2.1bn a year, clearly illustrating the cost of fraud to UK business.

The research findings and implications of consumer fraud were debated at a fraud roundtable event hosted by Equifax and attended by a cross-section of fraud and risk specialists from some of the UK’s leading companies, as well as crime prevention and legal specialists.

This whitepaper highlights some of the insight provided. Topics for debate included the key motivators behind fraud and suggestions for what businesses, across all sectors, need to do to lead change.
The motivation for fraud: the data

The YouGov research aimed to determine consumer perceptions of fraud and in which situations and under what circumstances someone might lie and thereby commit fraud.

- 65% of respondents believe the economic conditions will make it more likely that people will be less than truthful on a credit application
- 67% think it will make people more likely to be less than truthful on an insurance application

Others might do it – but not me!

Whilst the YouGov research suggests that a large proportion of consumers believe that others are likely to commit fraud, they personally would not.

- 63% of respondents say they have never been less than truthful when completing a credit application
- 67% say they have never been less than truthful on an insurance application
- 87% of respondents said they have never at any point committed insurance fraud by being less than truthful on an insurance claim

Age also appears to make a difference as to what behaviour is considered to be ‘slightly acceptable’.

- 19% of respondents aged between 25-34 said it was slightly acceptable to over-estimate the value of goods that have been stolen or cost of repairs when making an insurance claim, compared to just 7% of over 55 year olds
- 19% of respondents aged between 25-34 said it was slightly acceptable not to admit to some existing financial agreements when making an application, compared to only 8% of over 55 year olds
The changing face of fraud: 
the expert view

A shift in attitudes to fraud, created by the changing economic landscape of the last five years or more, was reported by all attendees at the roundtable. Perhaps as a consequence of this shift, it was felt that there are now two distinct categories of fraudster: those who may think they can get away with deception and decide to take a chance on that occasion, and organised criminals.

What costs business more: organised crime, otherwise known as ‘hard fraud’, or first person fraud, also known as ‘soft fraud’? This was hotly debated at the roundtable.

What became clear was that organised criminals have a very different skill-set and mindset compared with opportunistic fraudsters.

“Organised criminals, particularly in fraud, whether it is public or private sector, are the only people that read the manual. They are the only ones who know exactly how to do it right, whereas the profile of an opportunist is completely different. These are people who know that there is a risk and take it anyway. What you find is that they say, ‘I know there’s a risk but I will worry about that when I get there.’”

Ken Gallagher, Head of Operations, Economic Crime Command for the National Crime Agency

“There are two general kinds of fraud. There is the organised criminal enterprise and then there are the people who take advantage of process and systems gaps: the opportunists. These people happen to be lying in order to gain a financial or material advantage of some form or another and they may have every intention of repaying. They may also have a grudge against a business or institution, or a sense of entitlement, but they don’t see themselves as committing fraud.”

Mel Prescott, Credit Risk Manager, EE

According to Stratos Gatzouris, Partner/Member, Hill Dickinson Counter-Fraud Group, there has been a major increase in insurance fraud – at both the application stage and in claims – among consumers under the age of 35. However, most consumers do not consider themselves fraudsters, even if they do “stretch the truth”. This view was supported by others at the roundtable.

“Do people making insurance claims and putting in a heightened value really feel like they are committing fraud? I wouldn’t have thought they do. I think the majority of people see fraud as organised individuals who repeatedly make claims and take advantage.”

Clive Michel, Head of Threat Reduction for the National Crime Agency.

The perception that insurers in particular were an accpable target was also discussed.
“Premiums can be very high, particularly if you are a young driver, and if you need to drive a car, you need insurance, but you may not find it easy to find the money for their premium. Desperation might well lead people to say, ‘What if dad is the main driver and I’ll just be the named driver, or we register the car at auntie’s house because it’s a nicer area, which will bring down the premium?’ People, probably, don’t see this as fraud; they just think it’s a smart way of going about it.

“You might think it is okay to say that the car is going to stay at auntie’s address, but a bit further down the line, if your car is broken into on your own driveway then you are going to have trouble making a claim.”

Anne Green, Head of Fraud Management & Strategy for Aviva

The ‘acceptability’ of fraud

Whilst the financial crisis appears to have caused an increase in the number of people not telling the truth in both claim and application processes, the roundtable also addressed the fact that there may have been a societal shift, making the act of being less than truthful on a credit application or insurance claim more acceptable than it once was. Indeed, a topic of conversation was whether, if family and friends tell an individual that there is no harm in exaggerating an insurance claim, it stops being fraud?

Credit fraud: a grey area

It was also acknowledged that there are many grey areas when it comes to identifying and mitigating the risk of credit fraud, as the motivators vary for different consumer circumstances. For example, people making applications for new credit may decide not to disclose previous agreements in order to secure the best deal. While this action could potentially put them at risk of being financially overstretched in the future should their circumstances change, would they consider it to be a deliberately fraudulent act?

“Some people who ‘lie’ about previous credit commitments may be lying because they know it looks like they are going to have difficulty paying back what they are applying for. They may have absolutely every intention of paying back all their credit agreements, including the ones they have failed to disclose, but risk is scored for a reason.”

Sandra Peaston, Deputy Head of Financial Crime and Strategic Intelligence at CIFAS

The world of instant decisions

Consumer expectations of how quickly they can receive a decision on an application – whether for new credit, an insurance policy or even an insurance claim – also play an important role in motivating instances of “soft fraud”.

“People don’t see themselves as fraudsters if they just got some information wrong or decided to omit it at the time of application. Very often applicants just guess, especially when an instant decision is desired and that could be why some fraud campaigns haven’t worked. People weren’t relating to the campaign because they don’t see themselves as fraudsters.”

Clive Michel, Head of Threat Reduction: Education and Influence at National Crime Agency
Perceptions of penalties for fraud: the data

The YouGov research presented a number of scenarios where an individual might be less than truthful on a credit application and asked respondents what, if any, punishment that behaviour deserved.

Perhaps reflecting current economic pressures and an acceptance of ‘resourcefulness’ amongst consumers, there appeared to be a consensus on the penalties for a number of fraudulent behaviours:

- 85% believed an individual should not receive a fine and community service if they didn’t declare on a mortgage application that they would not be living at the property, but would be renting it to a friend
- 69% believed no punishment was deserved when a store card account wasn’t declared when applying for car finance
- 48% believed no punishment was deserved when a mobile phone account was opened using the applicant’s mother’s address, rather than their own, in order to secure a ‘new customer’ special offer
- 31% believed no punishment was deserved when certain previous addresses were omitted on a credit card application because the applicant had been late making a payment whilst living at that particular address

Crossing the line
However, respondents were less forgiving when presented with the scenario of someone applying for a loan in the name of a deceased person and that they had no intention of paying back. 57% said they believed this behaviour should receive a custodial sentence.
The consequences of fraud: the data

Respondents were also asked in the survey what actions they believed lenders and insurers currently take when fraud is detected:

- 55% of respondents believe a credit provider will add details that the person has lied on a credit application to the person’s credit file
  - In addition:
    - 52% believe the person’s details will be kept on file and they will be automatically declined for further credit applications
    - 25% believe it will be reported to the police as fraud

- 48% of respondents believe an insurance company will take legal action if a person is found to have lied on an insurance claim
  - In addition:
    - 54% believe it will be reported to the police as fraud
    - 60% believe the person would stop receiving insurance cover
    - 48% believe the person’s details will be kept on file
Creating the right deterrents to fraud: the expert view

Everyone attending the roundtable agreed that UK business needs to take steps to improve consumer awareness of the impact of not being truthful on applications. There was, however, general agreement that the consequences of fraud against the insurance industry are much clearer, which should act as a deterrent to consumers.

“There can be severe consequences in ‘first party’ fraud. For example, a policyholder could lose the entire sum of a claim even if they lie about just one element. Say a person lies about a burglary or a fire – or even if they have a genuine burglary or fire – and they claim £5,000 for a rental property while their house is being repaired, but it turns out that the claimant owned the rental property, the whole claim for the original property damage, which could be £200,000, could be forfeited.”

Stratos Gatzouris, Partner/Member, Hill Dickinson Counter-Fraud Group

In contrast, evidence suggests that the credit industry remains reluctant to take legal action against some fraudulent behaviour because of the potential reputational risk. Indeed, there was discussion about the fact that the ‘greyness’ of credit fraud makes it harder to spell out to consumers. There was discussion about the proliferation of television programmes that highlight insurance fraud; yet very few, if any, focus on credit fraud. The experts at the roundtable believe this underlines how difficult it is to explain the consequences of credit fraud to consumers in simple terms.
An interesting discussion developed at the roundtable regarding whether pursuing punishment through legal channels for committing ‘soft fraud’ could be an effective deterrent.

“There is a large proportion of those who engage in this type of fraud that are not career criminals and sending them to prison can be counterproductive. Putting them in an environment where they could be ‘groomed’ may encourage them to go on to commit more fraud when they are released. In addition, prosecution is expensive and puts additional pressure on resources such as the police and prison service.”

Ken Gallagher, Head of Operations, Economic Crime Command for the National Crime Agency

Improved levels of education were therefore seen by the roundtable delegates as a central tactic to proactively tackle fraud. The theory of ‘nudge’ science was cited, where behaviour towards the ‘socially acceptable’ relies, as the word says, on nudging people in the right direction rather than punishing them.

Raising awareness of the consequences of dishonesty at the very start of the process – the loss of a claim, impact on credit status, as well as the financial impact of a fine or even prison sentence – could lead to fraud being prevented at an earlier stage. It would also clearly be an advantage for businesses in reducing the costs and resources associated with prosecution.

The example of proactive initiatives such as CIFAS, the Insurance Fraud Bureau (IFB) cheat line and the Insurance Fraud Register were acknowledged as being effective. The IFB recently released figures showing a 32% increase in people reporting insurance fraud in 2013 compared to 2012, which was a new record.

“These initiatives have made people sit up and be aware of what might happen to them.”

Mike Levi, Professor of Criminology at Cardiff University

These industry-wide activities strike a balance between a soft educational approach and being heavy-handed by listing strict ‘do’s’ and ‘don’ts’. The general consensus was, however, that the focus should be on awareness, rather than punishment.

Tackling fraud at the frontline

There was also discussion around the changing dynamics of the financial services sector, as some businesses adopt more face-to-face interaction with customers, rather than solely relying on remote call centre operations. With this change comes the need for retail staff to be educated on how to spot the potential for fraudulent activity when the customer visits the branch, so that appropriate action can be taken before it creates an additional cost for the business.
Changing behaviour

One element that all delegates agreed on was that better understanding of consumer behaviour, and how this could be positively influenced and changed early in the application or claim process, would be central to deterring fraud.

“The fear of arrest is the most powerful thing to prevent crime in the first place. Once an individual has already engaged in a criminal act, then discovery followed by punishment is a consequence that is outside their control and which they will have to manage. If they believe that there is a good chance that they will be detected in the course of committing the crime, they will be deterred or even abandon the crime if challenged in the early stages of the act.”

Ken Gallagher, Head of Operations, Economic Crime Command for the National Crime Agency

This may include being more upfront about the consequences of either ‘lying’ or ‘misrepresenting’ on an application form or of not meeting the obligations of the credit agreement, rather than including this in the small print which may be read by only a few.

The challenge, as Mel Prescott, Credit Risk Manager of EE sees it, is one of tone: “We need to find the best approach to take, and tone of voice to use, that is appropriate to our brand and our sales processes. We want to avoid focusing the customer experience on a negative message. The mobile phone industry is already looking at actions, such as blacklisting the device itself, if fraud is committed, rendering it useless. We only do that for confirmed fraud at the moment, but we are looking to expand that for ‘first party’ fraud as well.”

In addition, staff can play a key role in catching potential fraud at the application stage but, as Ken Gallagher, Head of Operations, Economic Crime Command for the National Crime Agency, highlights, this presents a challenge for both the private and public sector:

“There is a conflict between service provision, profit and empowerment. If you are suspicious of an application, that application is going to take longer to process and, as a result, you may not meet your sales KPIs. A suspicious application could be ‘turned round’ by saying, ‘it is clear to me that this isn’t right, do you want to think about this and come back?’ The applicant will either review their application or, more likely, simply not re-apply. The question is, can business afford to empower employees, and how will they be rewarded for making the right decision? There are big savings to be made when taking into account how much it costs to investigate and prosecute fraud. It therefore makes sense to stop it right at the beginning, but will companies take these steps?”

“There is the eternal argument of how much education do you give your customers because they are seen as negative messages? They don’t generate income, but they are loss prevention tools. However, customers won’t respond well to doom and gloom messages.”

Sandra Peaston of CIFAS
Peer pressure is also seen as playing an important role in changing behaviour.

“In insurance, the difficulty is what you are going to say to someone: “Well done for being honest”? Well, you don’t know if they are being honest or not. However, the introduction of black box telematics in the motor insurance sector is a good example of how to reward and incentivise through peer group behaviour. How to convert this effect in the consumer credit arena is another challenge.”

Stratos Gatzouris, Partner/Member, Hill Dickinson Counter-Fraud Group

“All of my son’s friends have black boxes in their cars. I thought there would be a pressure to be boy racers when they started driving, but actually they are more clued-up at 18 years old now. They think, actually, I want a bit of money in my back pocket. When my son got money back for installing a black box, his friend said, ‘Oh, I only got this amount, you won’.

“I think it is easier for the insurance world to reward good behaviour, with discounted premiums for the next year. It is a little more difficult in the credit arena.”

Sally Felton Head of Fraud & Collections, Metro Bank
TAking the NEXT steps
Taking the next steps

The consensus at the roundtable was that there needs to be a shift in business culture to tackle fraud in a different way.

Education before the event could be the most powerful way to change attitudes to ‘soft fraud’ with some companies planning to adopt a different approach by communicating with consumers – and raising awareness of fraud – at the earliest stage of engagement.

But, while delegates did recognise that tougher measures were required in some instances, the emphasis needs to be on clarifying the consequences and establishing the threat of possible and potential action, rather than taking punitive action long after the fact.

The definition of fraud or the way it is perceived by consumers was identified as a key issue. The fact that people ‘lying’ or ‘exaggerating claims’ do not see themselves as committing fraud means communications that use the word ‘fraud’ don’t necessarily work. The terminology that is used in sales and marketing material, therefore, needs to address this.

Punishment to fit the crime was still viewed as important, with some empathy for taking direct action in order to show the consequences for those who commit fraud. Yet the debate kept returning to the requirement for more to be done to educate beforehand. It was accepted, however, that there is no easy solution when it comes to balancing the messages: too soft and the consequences won’t resonate; too aggressive and the customer could walk away to a competitor before you had a real opportunity to engage.

How applications are validated and verified can also play a crucial role where it appears it is more a case of deception rather than fraud, or misrepresentation rather than a lie. One person’s ‘small deception’ might be someone else’s ‘fraud’. It maybe the ‘little things’ are not perceived as fraud, especially if it is ‘us’ doing them. It may therefore come down to businesses examining their own practices, looking at data in a different way and then using it intelligently to make a cultural shift on fraud prevention.

It is a big gamble for businesses to adopt a different approach by tackling fraud at the front end of customer acquisition or engagement rather than after the event. However, certain organisations are already starting to see the benefits through solutions that use tools to help identify and screen out fraud at the point of sale.

Change has to start somewhere, and it will come down to who is prepared to grasp the nettle first.
We would like to thank the following people for attending the Equifax fraud roundtable and contributing to this whitepaper:

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- Anne Green, Head of Fraud Management & Strategy at Aviva
- Sally Felton, Head of Fraud Collections, Metro Bank
- Mel Prescott, Credit Risk Manager, EE
- Clive Michel, Head of Threat Reduction: Education and Influence, National Crime Agency
- Stratos Gatzouris, Partner/Member, Hill Dickinson Counter-Fraud Group and chairman of the Fraud special interest group in FOIL (Forum of Insurance Lawyers)
- Richard Hurley, Communications Manager, CIFAS
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