UK&I Fraud Report

Analysis of UK Fraud

February 2018

Our data is starting to suggest a swing back towards more First Party fraud

Firstly, I am pleased to say that we have seen a growth overall in the amount of fraud that has been detected and prevented. This shows the commitment we are making as an industry to better protect ourselves and our customers. The fraud landscape is interesting, and our analysis shows that we are starting to swing back to First Party fraud being the most dominant threat.

The interesting product is Current Accounts. We have seen an ongoing rise in fraud within Current Accounts from Trojan Horses. In addition, we are seeing a lot of mule activity now – people acting as accomplices and allowing their identity details to be used to open a Current Account for various fraudulent purposes. We are also seeing a move back to genuine individuals misrepresenting themselves to get credit.

When we look at where fraud occurs, we see pretty much what you expect: urban centres light up. London, the East End, North and South continue to be the hot spot of the UK both for First, and Third Party fraud.

In the Galashiels and Peebles areas there is an awful lot of fraud going on. It is a small population however the fraud levels show signs of activity that are causing concern. When I looked into it turned out to be Current Accounts and Cards across different lenders. The East Midlands is starting to show up too.

Again, that is new – we didn't see anything significant from the East Midlands a couple of years ago. However, we have a real hot spot in Peterborough for fraud.

The current fraud landscape amplifies the need to not be complacent. To look at the trends, to understand the patterns and to have the right flexibility of your fraud controls that can help you stay ahead of fraud, and stay in control. Technology can help you.

Where technology can play a part, it can be significant. Simple checks like looking for device risk, checking fraud databases, and authenticating customers using robust measures will inevitably help.

As we move forwards, and the Payment Services Directive 2 (PSD2) comes in next year, we will most likely start to see more common threats reoccur and the fraud trends move back to what we have seen previously. As online payment fraud declines in fraud attempts, Current Accounts will likely see an even greater surge.

Watch a summary of the 2017 fraud statistics

Could we be starting to see a swing to First Party fraud from Third Party fraud?

In the first half of 2017 we have seen an interesting swing in the fraud trends from being led by ID theft [Third Party] to being more First Party biased. This move back towards a larger percentage of fraud being First Party is the first time in about four years.

When you break that down, if you look at something like Current Accounts, ID theft is not actually going down, it is still the same. Genuine individuals lying to get hold of an account has increased.

For other products, such as Loans and Cards, we are seeing the mix change too. There are more genuine people lying to try and get credit and fewer people committing ID theft.

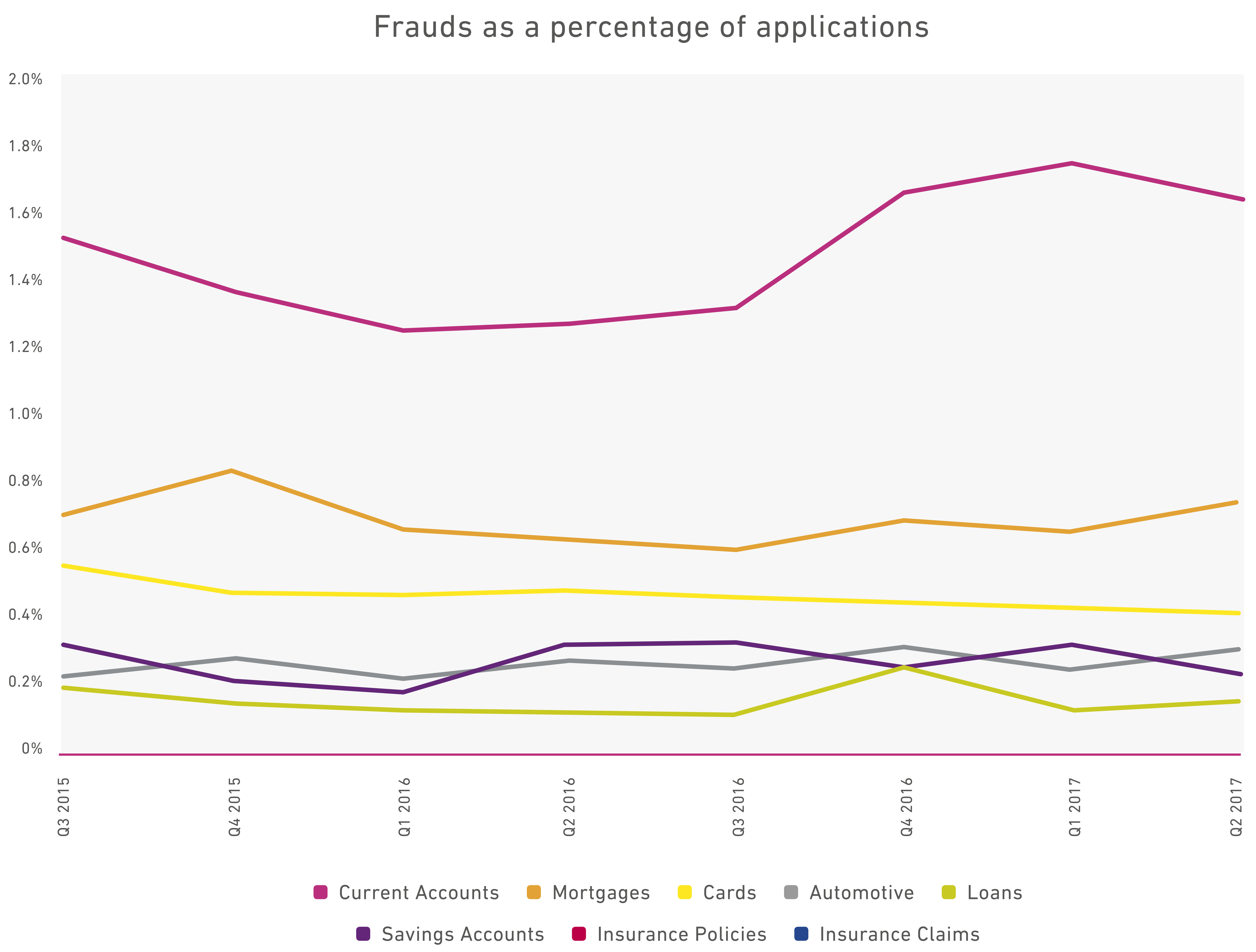
The exception is Automotive where the overall number of frauds has gone up by around 15%. In the first half of the year we saw this in both on First and Third Party fraud.

Fraud rate

When you look at the rate of fraud against applications you can see that Current Accounts remain the biggest proportion of application fraud.

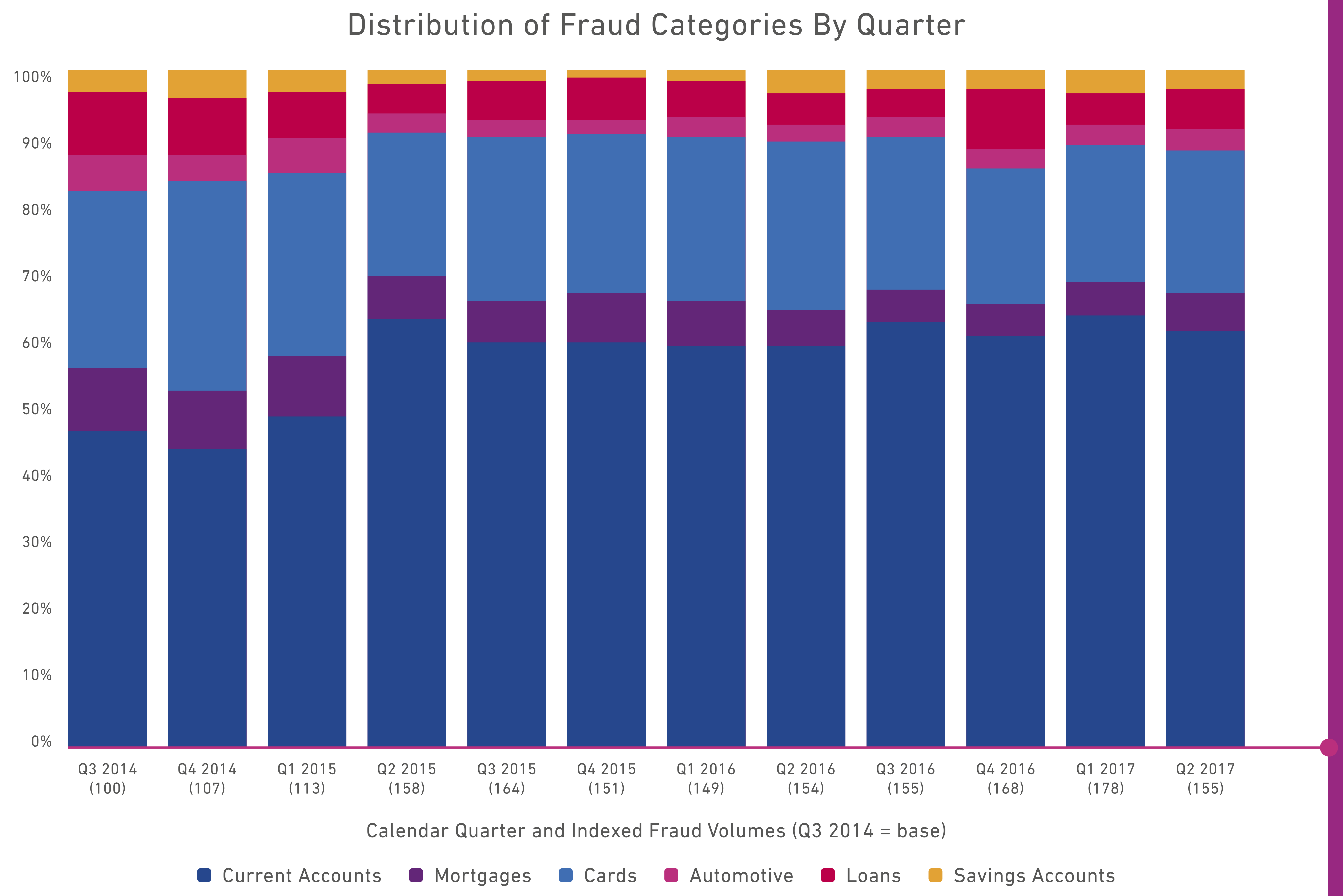
Cards, Savings Accounts and Automotive have stayed largely static. There was a slight spike in Q4 2015 for Mortgages and Q4 2016 for Loans. Overall, however, the percentage of fraud has been fairly stable.

Current Account fraud saw a significant increase (>25%) between Q3 2016 and Q4 2016 from 1.32% to 1.66% and has remained above 1.6% up to 2017. This is showing us a trend that is above the average percentages we saw in years before.



FINANCIAL SERVICES FRAUD TREND ANALYSIS

OVERALL FRAUD TRENDS



Fraud distribution by quarter

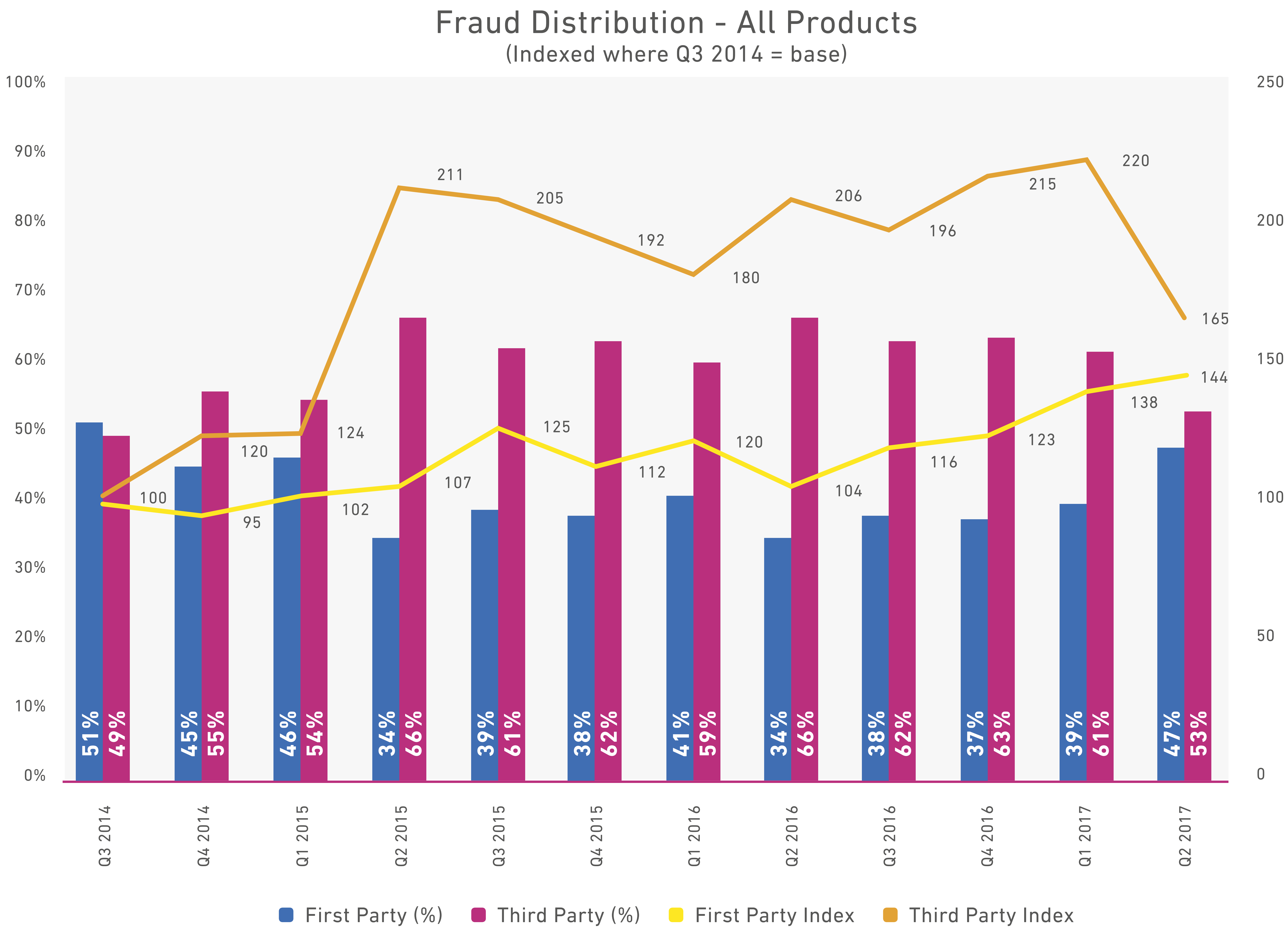
Post Q1 2015, Current Accounts have continued to make up the majority of reported fraud cases.

The proportion has remained consistent at around 60% over this time period.

The most fluctuation comes from Loans, which spiked in Q4 2016.

Cards have decreased in proportion over time and since Q2 2015, the percentage has remained fairly stable. (Pre Q2 2015 the proportion was around 25%, and since has reduced to around 20%).

FRAUD BY DISTRIBUTION



Fraud distribution

Since a notable shift in Q2 2015, when Third Party fraud volumes rose significantly, fraud has generally remained 60-66% Third Party.

In Q1 2017 the volumes of First Party fraud began to rise, increasing the proportion of First Party fraud as Third Party volumes remained relatively steady.

With a notable drop of Third Party fraud volumes in Q2 2017, coupled with a further increase in the numbers of First Party fraud, the gap closed further still in the direction of a balanced (50:50) split.

FRAUD BY PRODUCT

Current Accounts have retained their title as being the most targeted for the highest of volume of fraud. As a result, Current Accounts are 2.5 times more likely to be attacked than other product. Card fraud has started to show signs of growth, but fraud targeting Loans and Savings Accounts has been stagnant. The fraud distribution for Mortgages, Automotive and Savings Accounts saw very little deviation each quarter.

Fraudulent applications for Current Accounts reached 164 in every 10,000 in the second quarter of 2017, which is up from 128 in every 10,000 between April and June last year. Mortgage fraud rose to 75 from 63 in every 10,000 applications over the same period, although Credit Card fraud dropped from 48 to 42 in every 10,000 applications year-on-year.

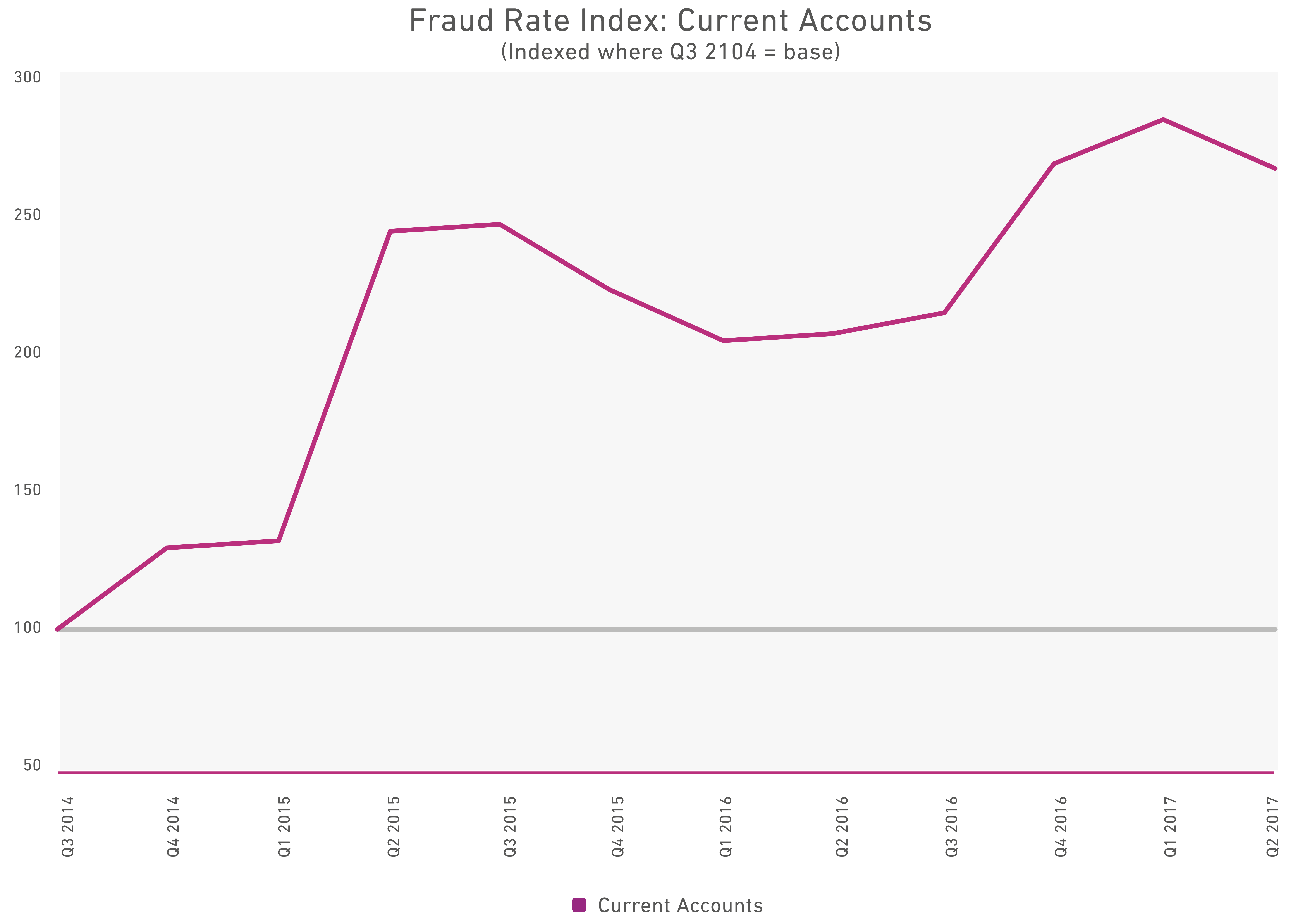
FRAUD BY PRODUCT

Using Q3 2014 as a base, we have indexed the fraud rate to show relative change since then, on a quarterly basis.

You can see, from more detailed analysis, the trend in Current Accounts much more clearly.

Looking at Current Account fraud you can see extreme growth between Q1 2015 and Q2 2015 before it starts to fluctuate.

Current Account fraud now remains 2.5 times more likely to be targeted when compared with the base.



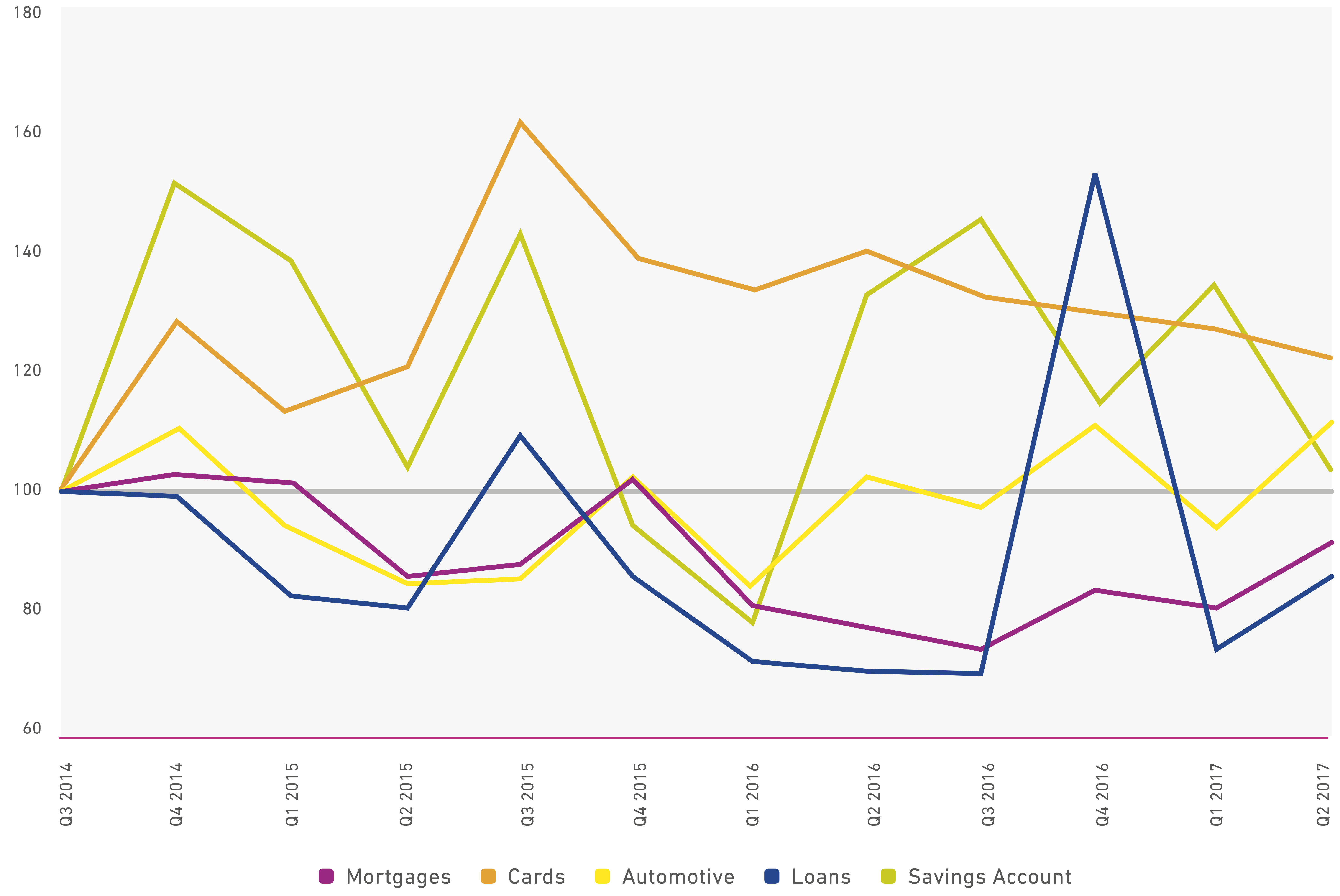
FRAUD BY PRODUCT

Application fraud against Cards peaked in Q3 2015 at 1.6 times more likely, with Q2 2017 ending at 1.2 times more likely, when compared to the base.

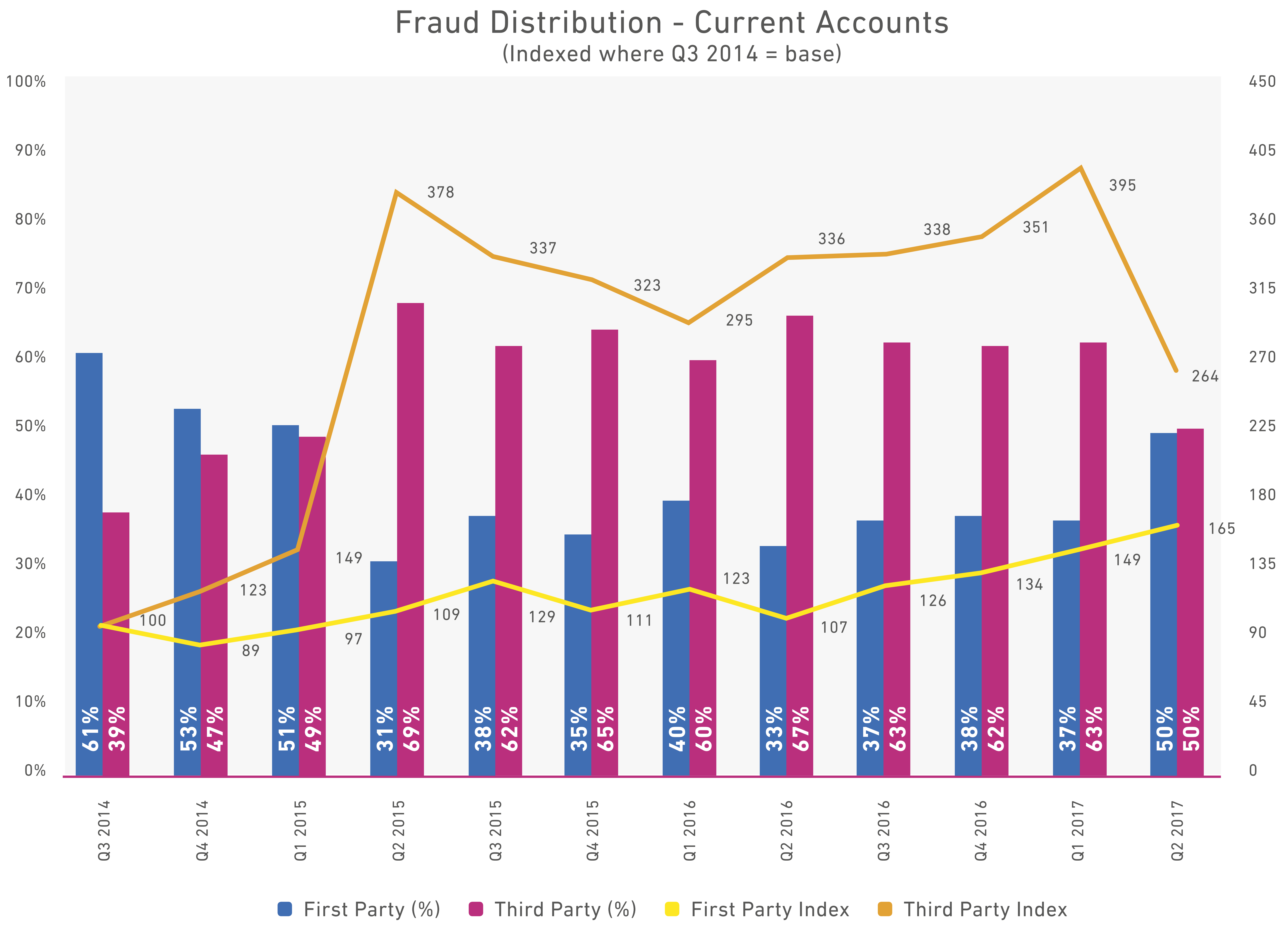
Mortgages and Loans (with the exception of Q4 2016) both display a below base trend making them less likely to be fraudulent as of Q2 2017.

See page 8 for a more detailed view of Current Account trends

Fraud Rate Index: All products excluding Current Accounts
(Indexed where Q3 2014 = base)



FRAUD DISTRIBUTION: BY PRODUCT

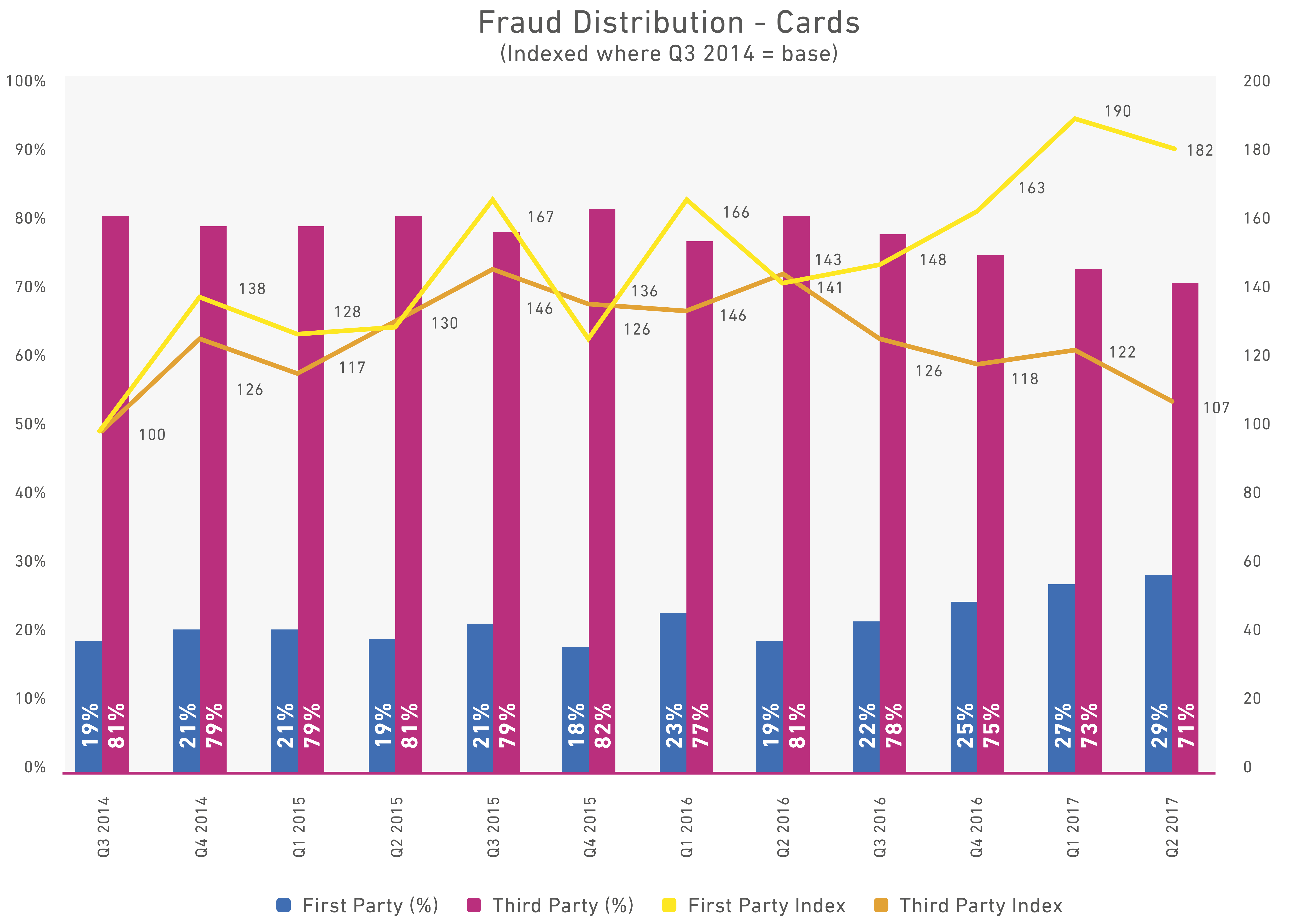


Due to it being the largest component of Fraud, Current Accounts determine the general overall distribution.

Current Account fraud (and specifically Third Party) appears mainly responsible for the significant shift in Q2 2015.

In Q2 2017 there was a large contraction in Third Party fraud, balancing the distribution out between First and Third Party fraud.

FRAUD DISTRIBUTION: BY PRODUCT

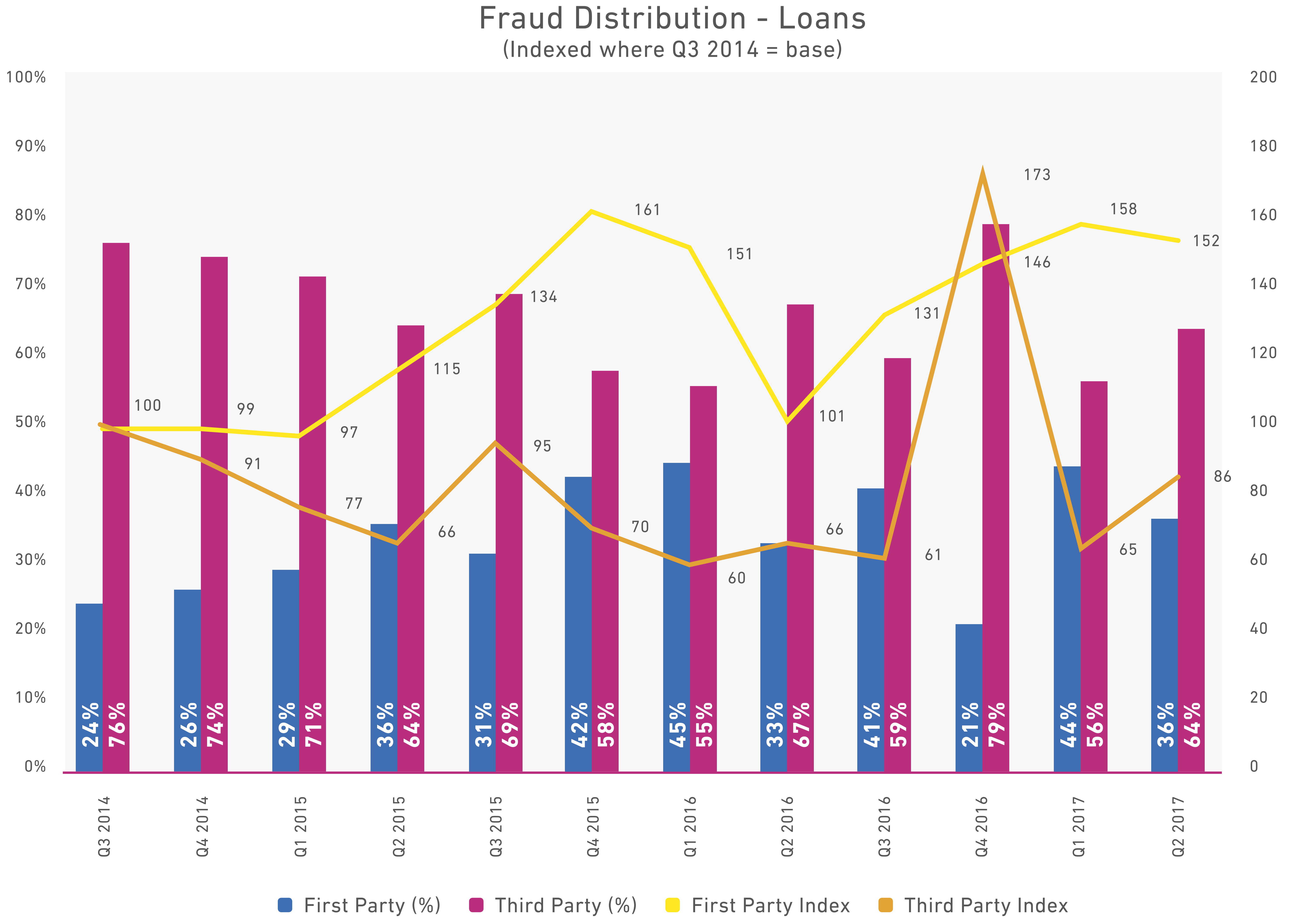


Cards

Card fraud has seen a gentle increase in First Party fraud distribution over the past year.

The current split represents the highest proportion of the last 3 years as First Party.

FRAUD DISTRIBUTION: BY PRODUCT



Loans

Loan fraud distribution remains predominantly Third Party although there were regular fluctuations which are a result of relatively low volumes of recorded instances of Loan fraud (when compared to the other types of fraud).

The only type of Fraud that sees lower volumes than Loans is that of Savings Accounts.

It's important to note for Loans the fraud bar is generally high, because you're probably giving out large sums of money.

Mortgages, Savings and Automotive

The fraud distribution for Mortgages, Automotive and Savings Accounts have seen very little deviation each quarter.

Mortgages sit at about 95:5 weighted towards Third Party fraud.

Savings Accounts are approximately 85:15 towards Third Party.

Automotive is the mirror of Savings Accounts at 85:15 being First Party.

FRAUD BY DEMOGRAPHIC

The demographics of fraud show largely what you would expect. The less affluent groups are committing the fraud and being targeted too.

Specifically, Urban Cohesion. These Mosaic groups, who are often budget tight and with young children, have seen the biggest increase in First Party fraud. Municipal Challenge, often city renters, have become increasingly more likely to be victims of Third Party fraud in the last year than in previous years.

Frauds against this group are up 2.4% compared to last year and 4.2% since 2015.

FRAUD BY DEMOGRAPHIC

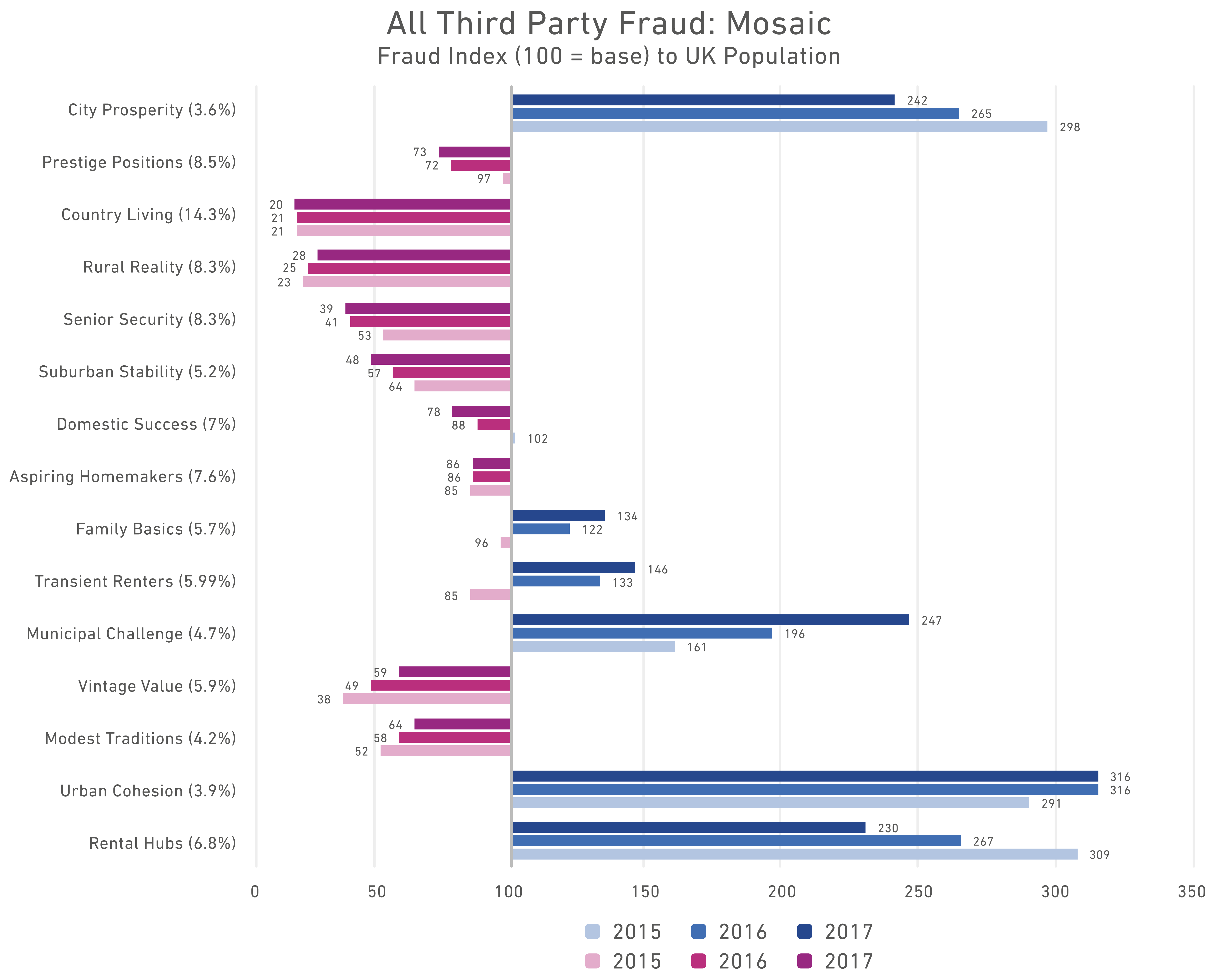
Fraud by Mosaic Demographics – Third Party fraud

Urban Cohesion are 3 times more likely to be victims of Fraud, followed by **Municipal Challenge, City Prosperity** and **Rental Hubs** (each being over twice as likely to be a victim).

The least likely groups to be victim are **Country Living, Rural Reality and Senior Security**.

Municipal Challenge has grown by 2.4 percentage points in the last year. Family basics and transient renters have also shown signs grown, most likely from Muling. **Rental Hubs** have seen a 2.5 percentage point contraction.

Click here to understand more about Mosaic



NB: 2017 contains partial year results

FRAUD BY DEMOGRAPHIC

Fraud by Mosaic Demographics – First Party fraud

When you look at Mosaic demographics you start to see some interesting findings.

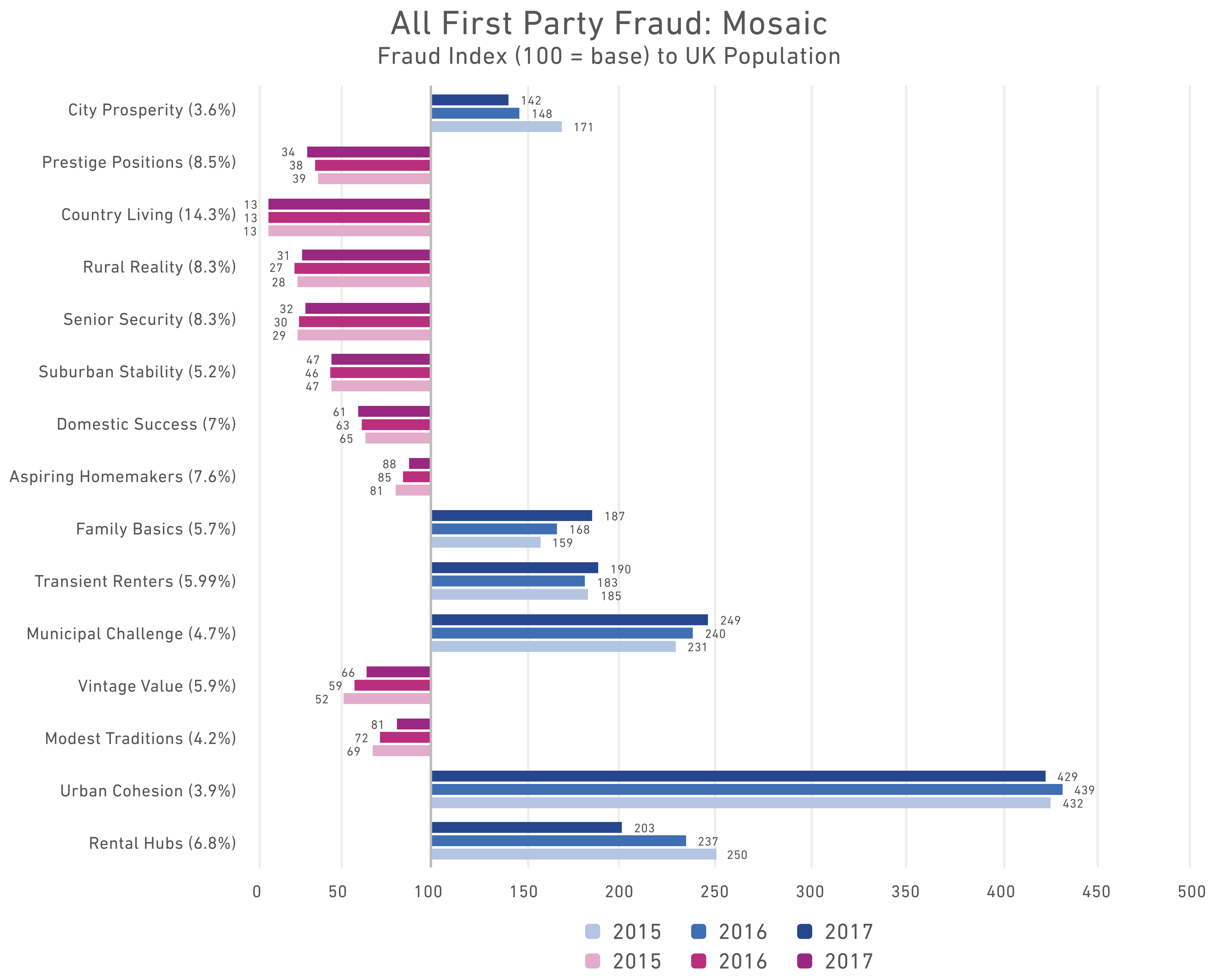
Urban Cohesion are over 4 times more likely to commit First Party fraud compared to the general UK population.

This is followed by **Municipal Challenge** (over twice as likely). Also interesting is City Prosperity, a typically wealthy segment are also showing signs of First Party Fraud - perhaps due to having bigger assets.

Country Living and Rural Reality are the least likely groups. The largest percentage point increase from 2016 to 2017 is for **Family Basics**.

The largest percentage point reduction from 2016 to 2017 is for **Rental Hubs**.

NB: 2017 contains partial year results



FRAUD BY DEMOGRAPHIC

Fraud, by product, by Mosaic Demographics – Third Party fraud

The top 6 groups in this table are all significantly over-represented making up only 31% of the entire UK Adult population, but account for 65% of detected Third Party fraud.

The Rental Hubs segment accounts for the largest proportion of all detected Third Party fraud. While, as for all segments Current Account fraud represents the majority, it is not always over-represented when compared with the general population.

For Rental Hubs, the highest over-representation is observed for Credit Cards (28.1% of Third Party fraud cases within this Mosaic Group and 12% above the general population in terms of likelihood).

Urban Cohesion is the second largest group, accounting for 12% of detected Third Party frauds. Mortgage fraud, within this group, is over-represented by 85% when compared with the general population, but accounts for only 0.8% of Third Party fraud within this group.

Whilst Loans, Credit Cards and Mortgages are over-represented within the lower-risk groups (the bottom 6 making up 46% of the UK Adult Population), they make up only 17% of detected Third Party frauds and so this holds little significance overall.

Type: Third Party Fraud (2017 H1)

MOSAIC Group	% of UK Adults	% of Third Party Frauds	Risk Score (100 = base)	Favored Product	Group Third Party %	Index Value
Urban Cohesion	3.9%	12%	▲ 316	1. Mortgages	0.8%	▲ 185
				2. Automotive	1.3%	▲ 136
				3. Current Accounts	71.1%	▬ 115
Municipal Challenge	4.7%	12%	▲ 247	1. Savings	19.6%	▲ 330
				2. Current Accounts	60.9%	▬ 98
				3. Credit Cards	15.9%	▼ 63
City Prosperity	3.6%	9%	▲ 242	1. Automotive	1.3%	▲ 134
				2. Credit Cards	32.9%	▲ 131
				3. Loans	6.1%	▬ 109
Rental Hubs	6.8%	16%	▲ 230	1. Credit Cards	28.1%	▬ 112
				2. Current Accounts	62.0%	▬ 100
				3. Mortgages	0.4%	▬ 92
Transient Renters	6.0%	9%	▲ 146	1. Current Accounts	78.9%	▲ 127
				2. Automotive	0.6%	▼ 61
				3. Credit Cards	14.5%	▼ 58
Family Basics	5.7%	8%	▲ 134	1. Current Accounts	75.2%	▲ 121
				2. Automotive	0.7%	▼ 78
				3. Loans	4.0%	▼ 71
Aspiring Homemakers	7.6%	7%	▬ 86	1. Automotive	1.3%	▲ 137
				2. Credit Cards	30.0%	▬ 120
				3. Mortgages	0.5%	▬ 117
Domestic Success	7.0%	5%	▼ 78	1. Loans	10.8%	▲ 192
				2. Automotive	1.5%	▲ 162
				3. Mortgages	0.6%	▲ 139
Prestige Positions	8.5%	6%	▼ 73	1. Loans	10.8%	▲ 193
				2. Mortgages	0.7%	▲ 164
				3. Credit Cards	38.6%	▲ 154
Modest Traditions	4.2%	3%	▼ 64	1. Loans	6.3%	▬ 113
				2. Current Accounts	67.0%	▬ 108
				3. Credit Cards	22.8%	▬ 91
Vintage Value	5.9%	3%	▼ 59	1. Current Accounts	69.9%	▬ 113
				2. Credit Cards	21.7%	▬ 86
				3. Loans	4.5%	▬ 80
Suburban Stability	5.2%	3%	▼ 48	1. Mortgages	0.8%	▲ 187
				2. Automotive	1.7%	▲ 177
				3. Loans	9.3%	▲ 167
Senior Security	8.3%	3%	▼ 39	1. Loans	9.6%	▲ 172
				2. Credit Cards	32.5%	▲ 129
				3. Mortgages	0.5%	▬ 101
Rural Reality	8.3%	2%	▼ 28	1. Loans	9.4%	▲ 169
				2. Automotive	1.0%	▬ 102
				3. Credit Cards	25.2%	▬ 100
Country Living	14.3%	3%	▼ 20	1. Loans	10.0%	▲ 179
				2. Mortgages	0.7%	▲ 163
				3. Credit Cards	35.7%	▲ 142

FRAUD BY DEMOGRAPHIC

Fraud, by product, by Mosaic Demographic – First Party fraud

The top 6 groups in this table are all significantly over-represented making up only 31% of the entire UK Adult population, but account for 69% of detected First Party fraud.

The Urban Cohesion segment accounts for the largest proportion of all detected First Party fraud. Whilst, as for all segments, Current Account fraud represents the majority it is not always over-represented when compared with the general population.

For Urban Cohesion, the highest over-representation is observed for Mortgages (14.5% of First Party fraud cases within this Mosaic Group and 19% above the general population in terms of likelihood).

Rental Hubs is the second largest group, accounting for 14% of detected First Party frauds. Savings fraud, within this group, is over-represented by 22% when compared with the general population, but accounts for only 1.6% of First Party fraud within this group.

Savings Account fraud is also the highest over-represented target product of First Party fraud for Municipal Challenge and City Prosperity (being 55% and 101% higher risk, respectively).

Whilst Automotive, Credit Cards and Mortgages are over-represented within the lower-risk groups (the bottom 6 making up 52% of the UK Adult Population), they make up only 17% of detected First Party frauds and so this holds little significance overall.

Type: First Party Fraud (2017 H1)						
MOSAIC Group	% of UK Adults	% of First Party Frauds	Risk Score (100 = base)	Favored Product	Group First Party %	Index Value
Urban Cohesion	3.9%	17%	429	1. Mortgages	14.5%	119
				2. Current Accounts	61.6%	100
				3. Loans	4.8%	98
Municipal Challenge	4.7%	12%	249	1. Savings	2.1%	155
				2. Loans	5.6%	113
				3. Current Accounts	69.6%	113
Rental Hubs	6.8%	14%	203	1. Savings	1.6%	122
				2. Current Accounts	66.0%	107
				3. Credit Cards	12.8%	99
Transient Renters	6.0%	11%	190	1. Current Accounts	77.3%	126
				2. Loans	4.0%	80
				3. Credit Cards	8.8%	68
Family Basics	5.7%	11%	187	1. Current Accounts	72.4%	118
				2. Loans	5.2%	105
				3. Savings	1.3%	96
City Prosperity	3.6%	5%	142	1. Savings	2.7%	201
				2. Credit Cards	17.7%	136
				3. Mortgages	14.3%	117
Aspiring Homemakers	7.6%	7%	88	1. Mortgages	16.5%	135
				2. Automotive	9.1%	130
				3. Credit Cards	15.3%	118
Modest Traditions	4.2%	3%	81	1. Automotive	8.2%	118
				2. Loans	5.3%	108
				3. Current Accounts	61.9%	101
Vintage Value	5.9%	4%	66	1. Loans	5.8%	117
				2. Current Accounts	67.9%	110
				3. Automotive	6.9%	100
Domestic Success	7.0%	4%	61	1. Mortgages	23.6%	193
				2. Automotive	12.4%	178
				3. Credit Cards	20.5%	158
Suburban Stability	5.2%	2%	47	1. Automotive	13.5%	194
				2. Credit Cards	21.9%	168
				3. Mortgages	16.6%	136
Prestige Positions	8.5%	3%	34	1. Mortgages	31.3%	256
				2. Automotive	14.1%	203
				3. Credit Cards	19.1%	147
Senior Security	8.3%	3%	32	1. Automotive	12.2%	175
				2. Mortgages	19.5%	160
				3. Credit Cards	18.6%	143
Rural Reality	8.3%	3%	31	1. Automotive	13.6%	196
				2. Credit Cards	18.2%	140
				3. Loans	6.3%	127
Country Living	14.3%	2%	13	1. Automotive	16.7%	240
				2. Mortgages	24.9%	204
				3. Credit Cards	22.6%	174

With more people using mobile, Internet and device as a means to interact and transact, we are seeing more digital exposure to fraud. It's therefore perhaps not surprising that cybercrime is starting to dominate fraud – and is now accounting for a large proportion of all committed fraud and identity theft. Those who are the most tech savvy are experiencing most of the identity fraud cases.

There is now more personally identifiable data being transmitted on the internet, leaving the owner much more vulnerable. The days of imitating someone in person is starting to dwindle away. Today, businesses and people need to grapple with proving and validating identities that are hidden behind a computer.

While cybercrime in some respects is relatively new, in some cases, the acts of fraud committed from cybercrime aren't that sophisticated or innovative. We are seeing fraudsters impersonate companies, plant viruses as well as age-old data hacking and account cloning. The more we conduct our lives online, the more vigilant we need to be and the smarter you need to be at prevention and detection.

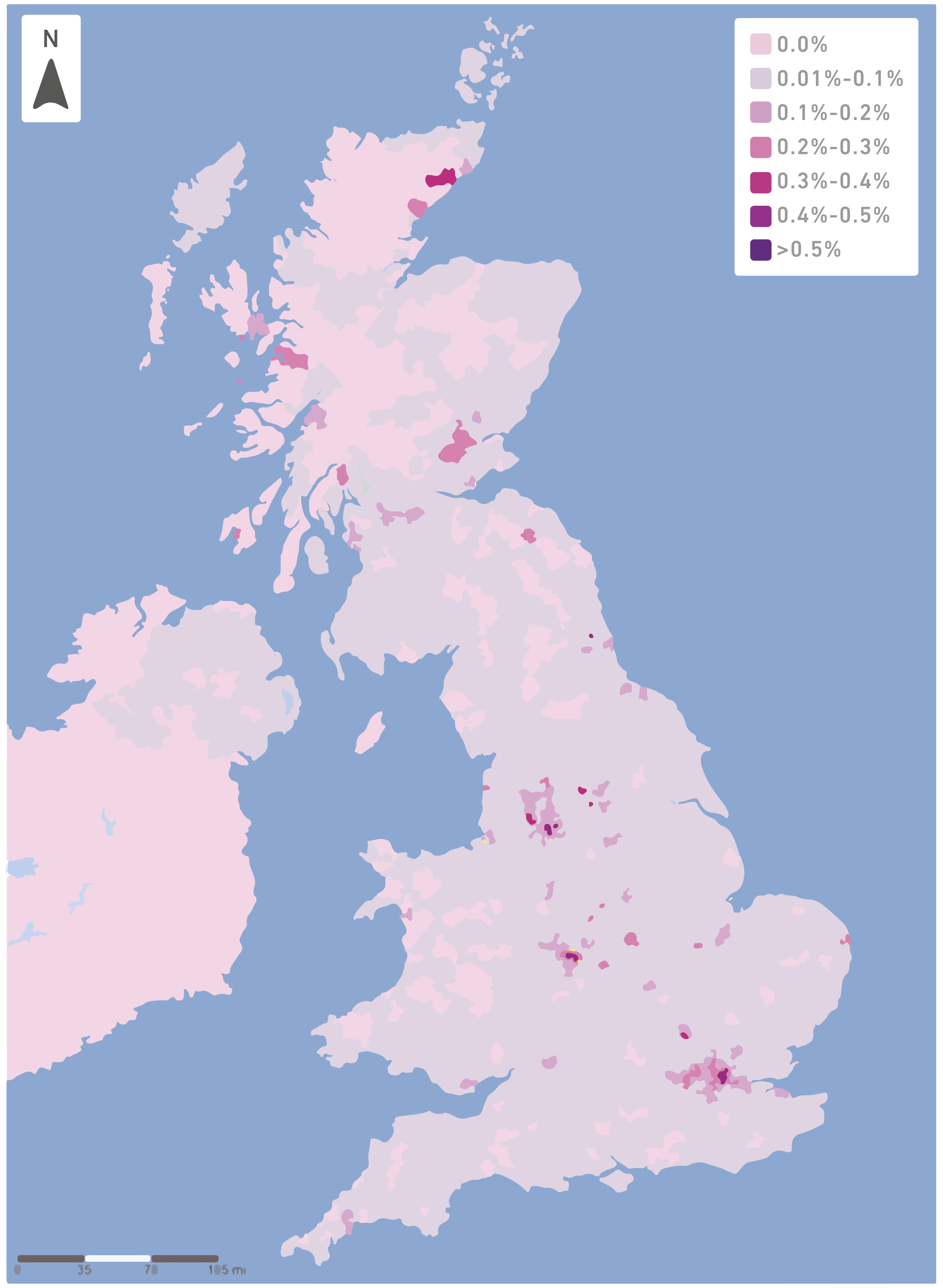
View our infographic:
A-Z of Fraud

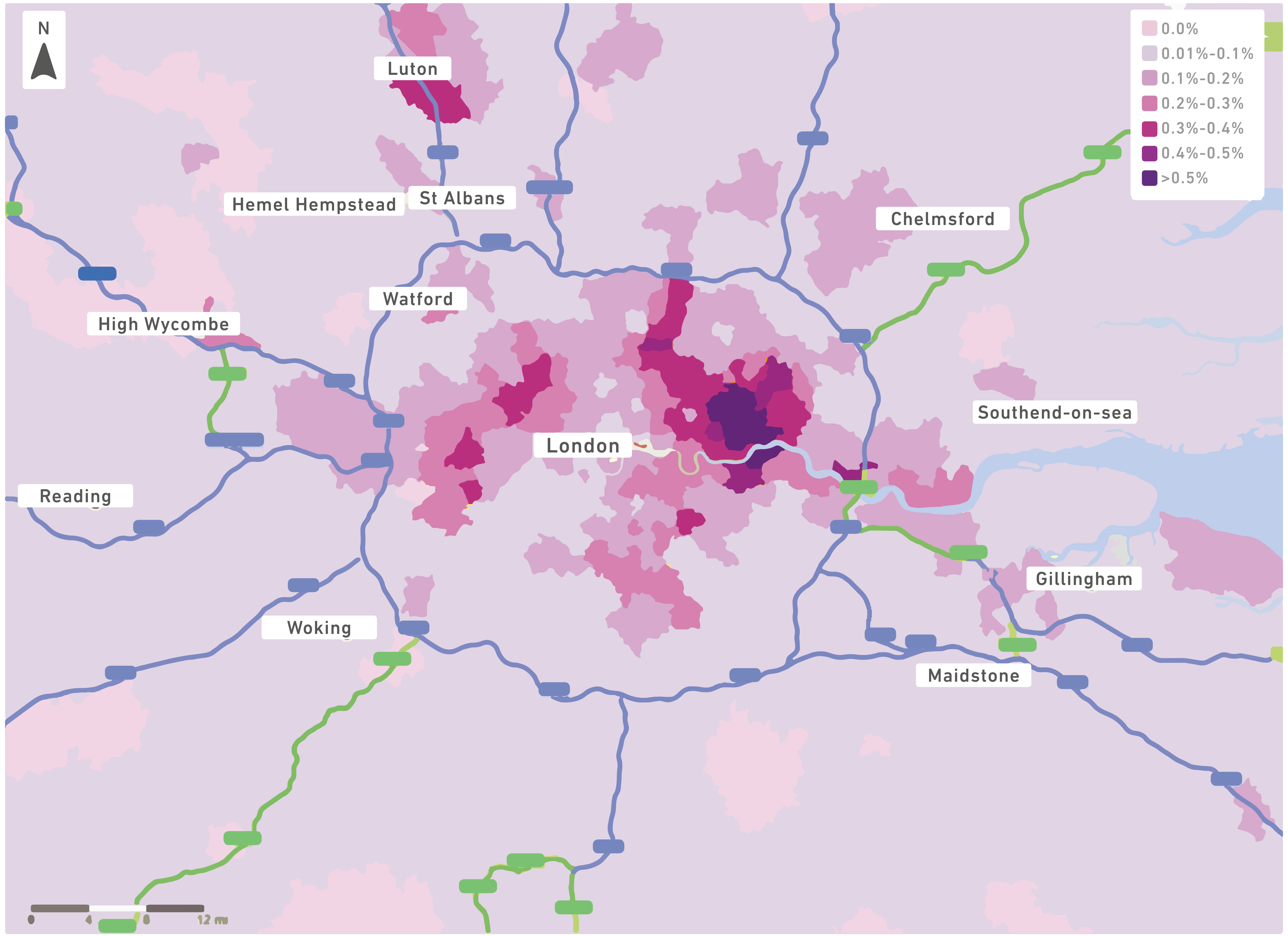
FRAUD BY GEOGRAPHY

From a geographic point of view, we are still seeing London very much the hot spot for the UK as you would expect. There are areas around London being targeted for the 'rural mail box fraud' - where we see people finding a big remote house with a mail box at the end of the drive, and intercepting it to steal post as it arrives. We are also seeing a lot of targeting of flats in the Inner City areas where they have communal mail boxes.

Also, in Inner City areas we are seeing more Mules. This is where identities are being willingly given to fraudsters to use.

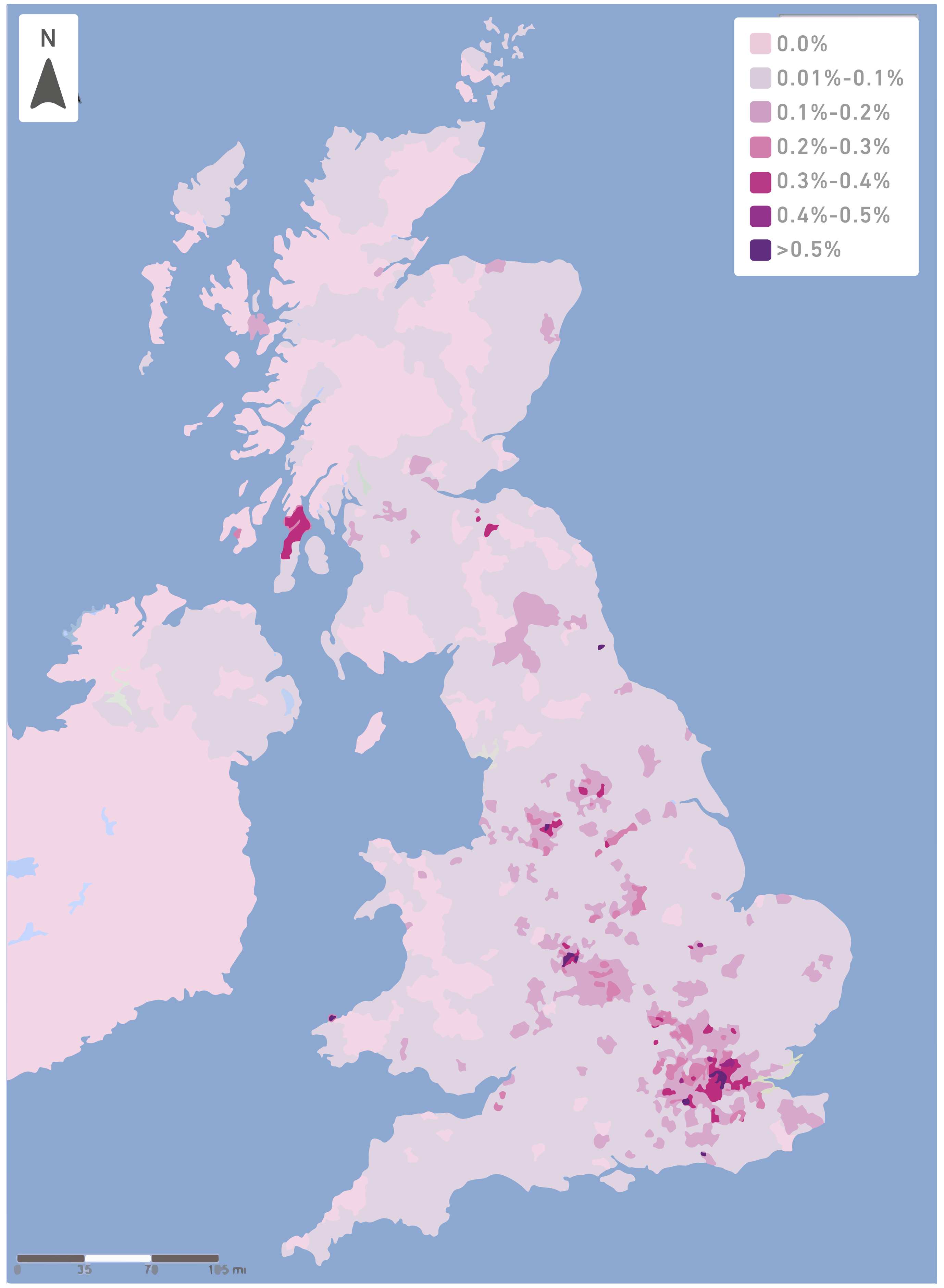
First Party Fraud

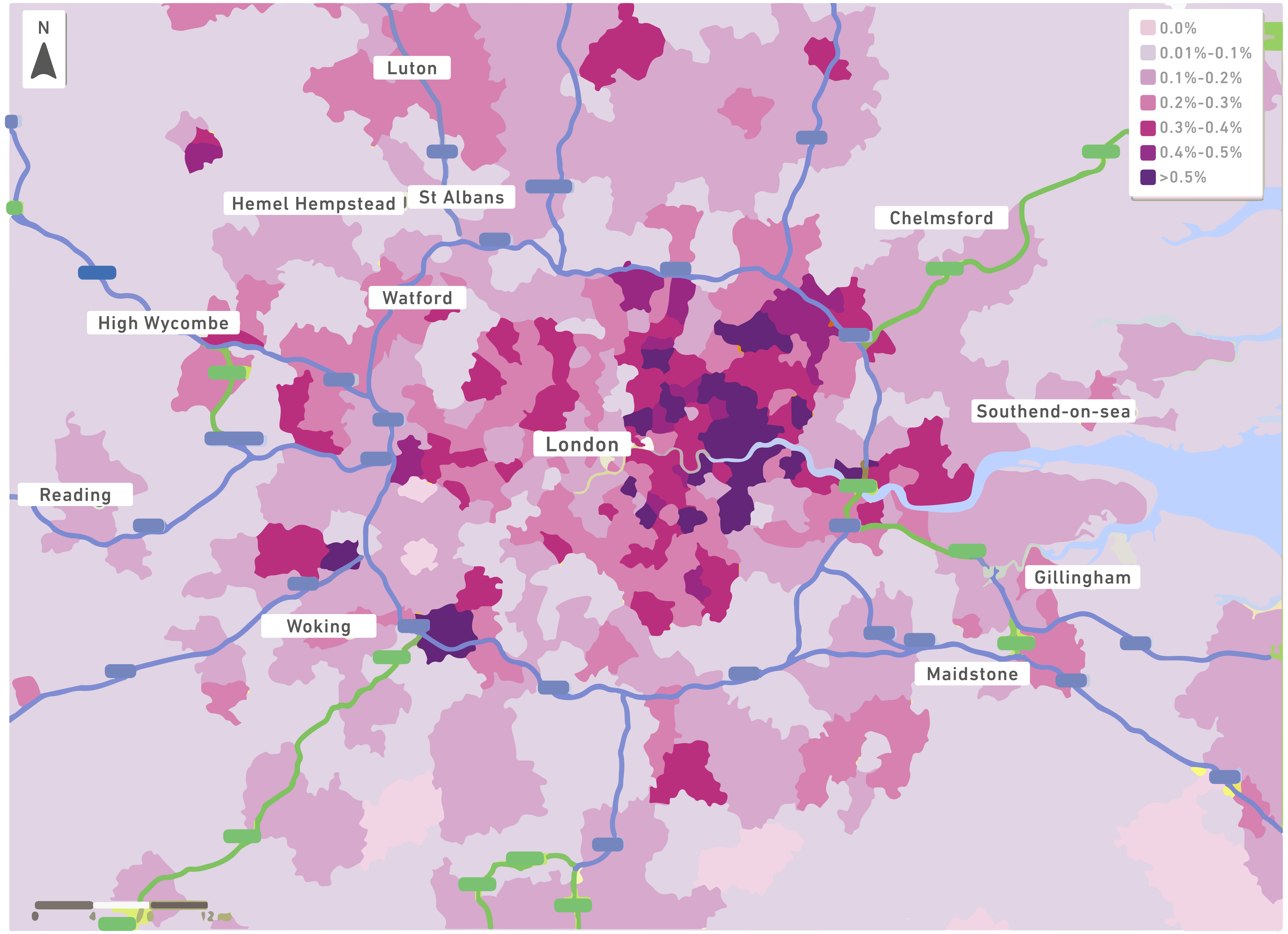




FRAUD BY GEOGRAPHY

Third Party Fraud





FRAUD BY GENDER

Detected First Party fraud for both Males and Females has grown in volume of reported cases since 2013 by up to 60%.

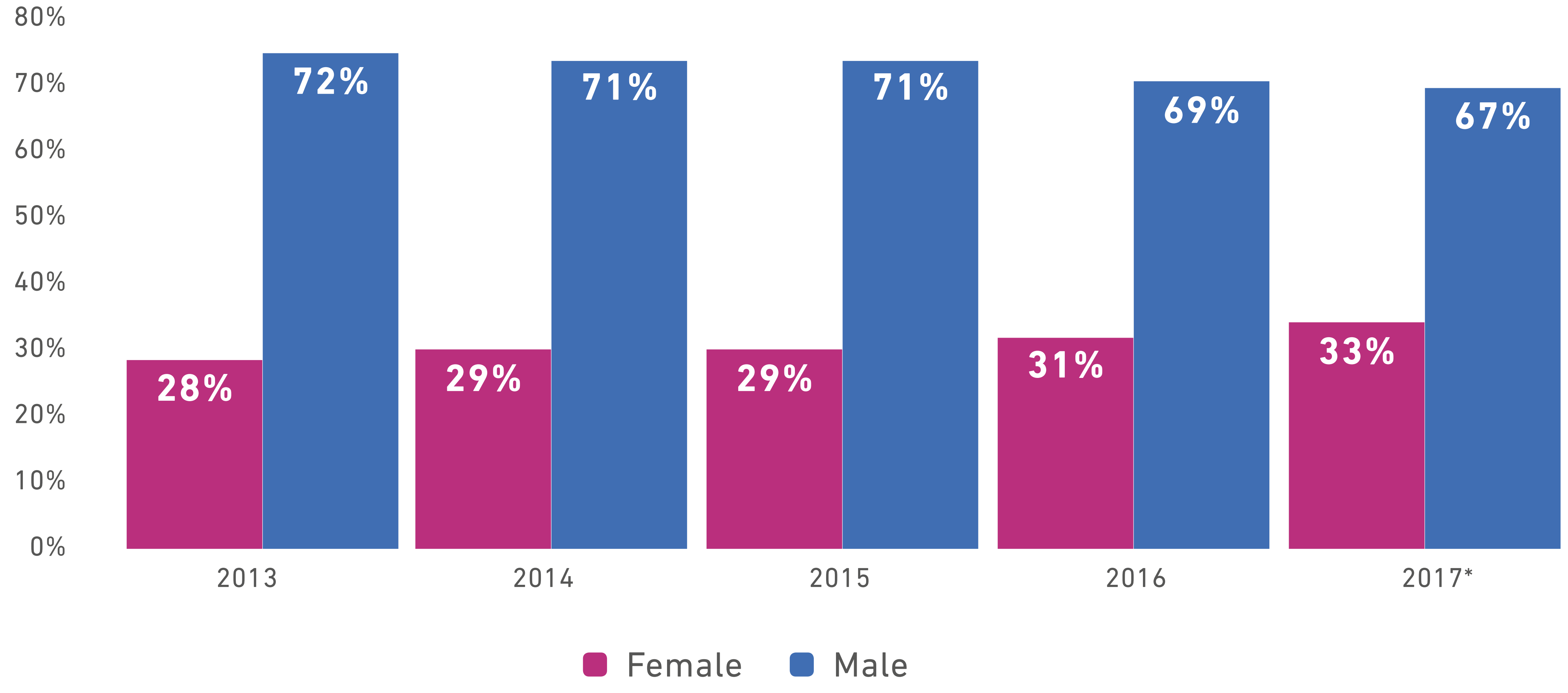
Growth in First Party fraud by Men has plateaued since 2015 (when compared to the levels seen in 2013). But the Female First Party fraud index has continued to grow almost linearly during this period.

Detected Third Party fraud jumped significantly for both Males and Females between 2014 and 2015, with a growth of 150% and 208% respectively when compared with the base of 2013.

Detected Third Party fraud for Females flattened in 2016, whilst Men have seen a continued growth (when compared with 2013).

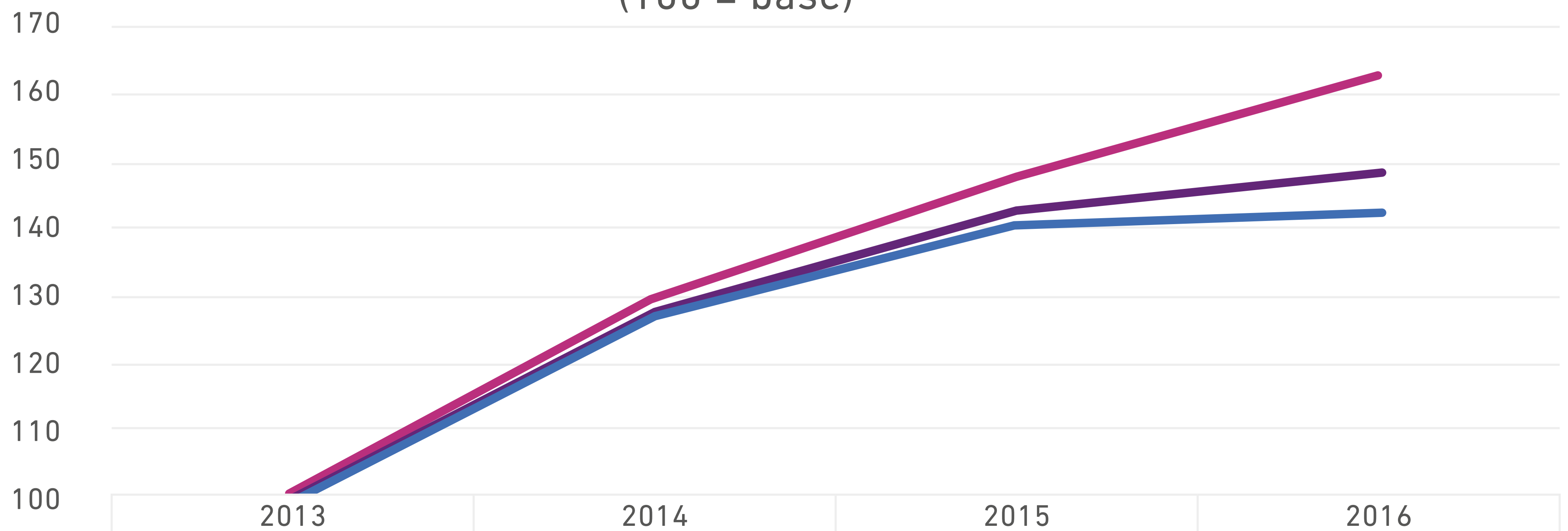
FRAUD BY GENDER

Detected First Party Fraud. Distribution by Gender



Detected First Party Fraud. Indexed By Gender

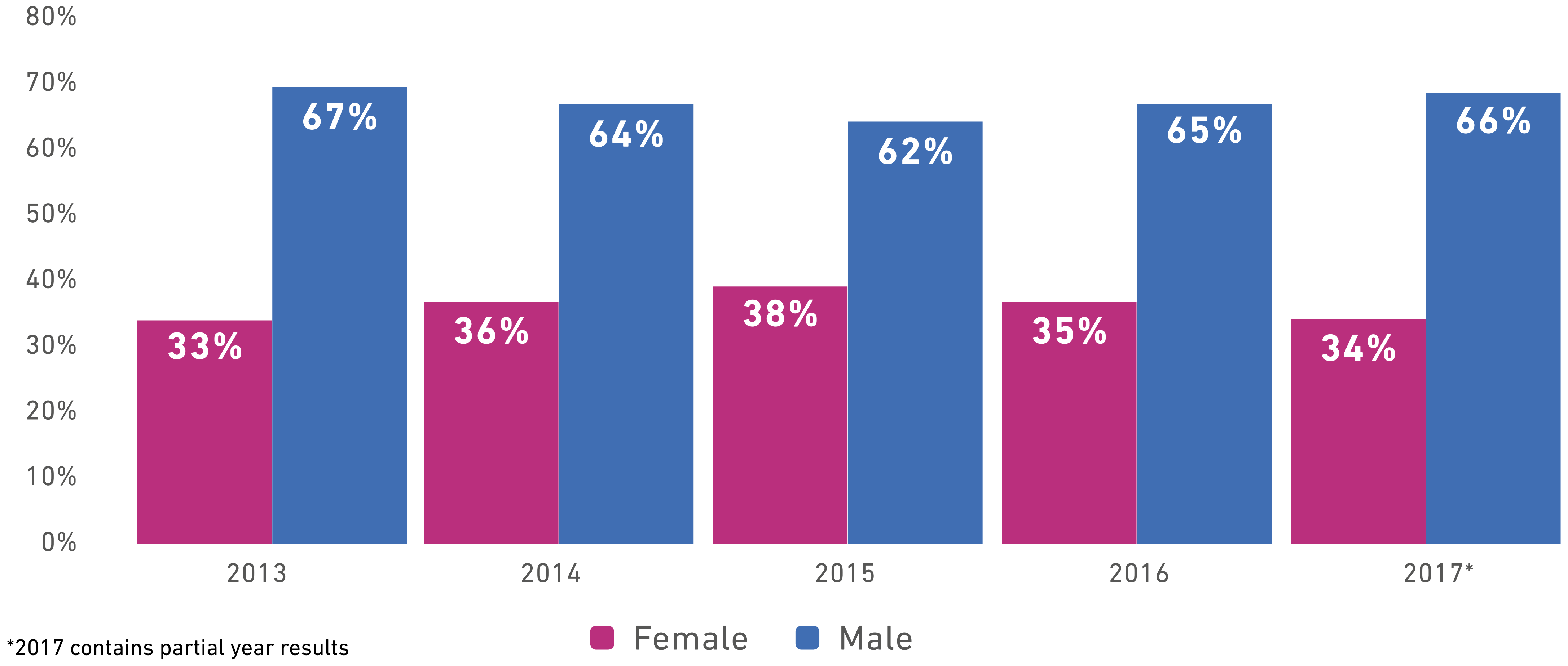
(100 = base)



	2013	2014	2015	2016
Index to 2013	100	127	141	146
Male Index to 2013	100	126	139	141
Female Index to 2013	100	128	145	160

Index to 2013 Male Index to 2013 Female Index to 2013

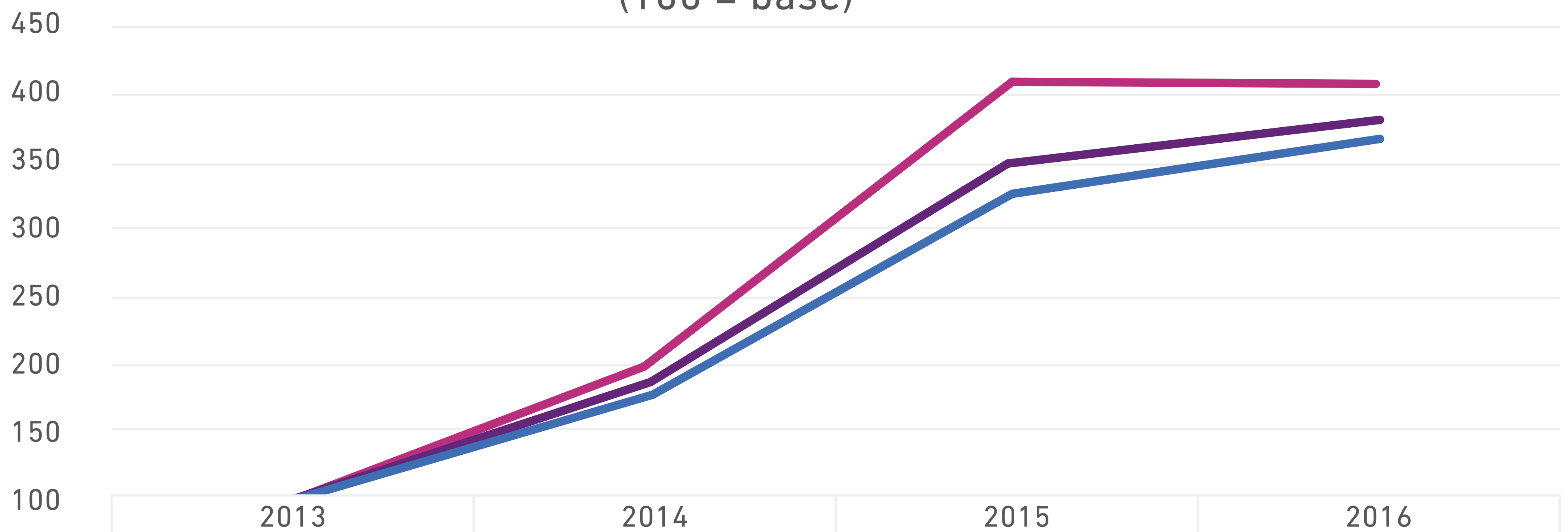
Detected Third Party Fraud. Distribution by Gender



*2017 contains partial year results

Detected Third Party Fraud. Indexed By Gender

(100 = base)



	2013	2014	2015	2016
Index to 2013	100	183	352	377
Male Index to 2013	100	175	325	364
Female Index to 2013	100	198	406	405

Index to 2013 Male Index to 2013 Female Index to 2013

FRAUD BY AGE

Third Party fraud is over twice as likely than the general population for those aged between 25 and 39 years.

The 25-29 age group is almost 3 times more likely to commit First Party fraud than the general population, with the ages 30-34 and 20-24 being approximately 2.5 times more likely to perpetrate fraud.

FRAUD BY AGE

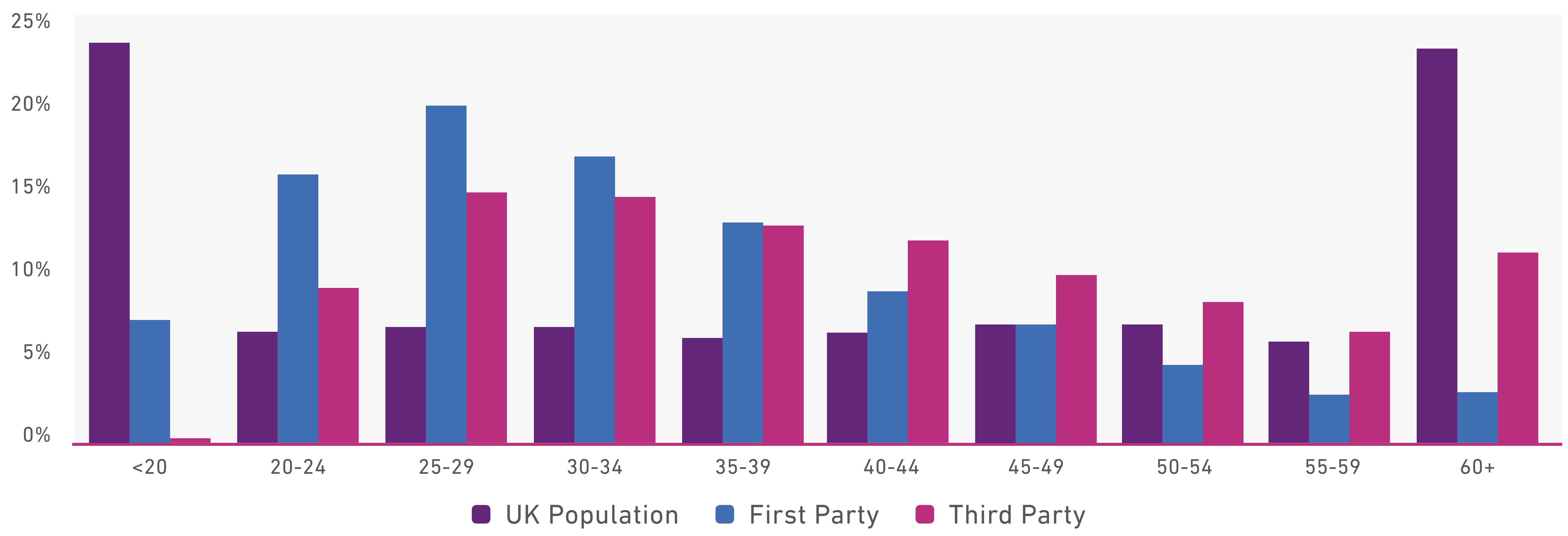
The largest share of detected First Party fraud is from the age group 25-29 (20%), followed by the 30-34 (17%) and the 20-24 age groups (16%).

Detected Third Party fraud is seen most again within the 25-29 age group (15%). This is followed closely by the 30-34 (15%) and the 35-39 (13%) age groups.

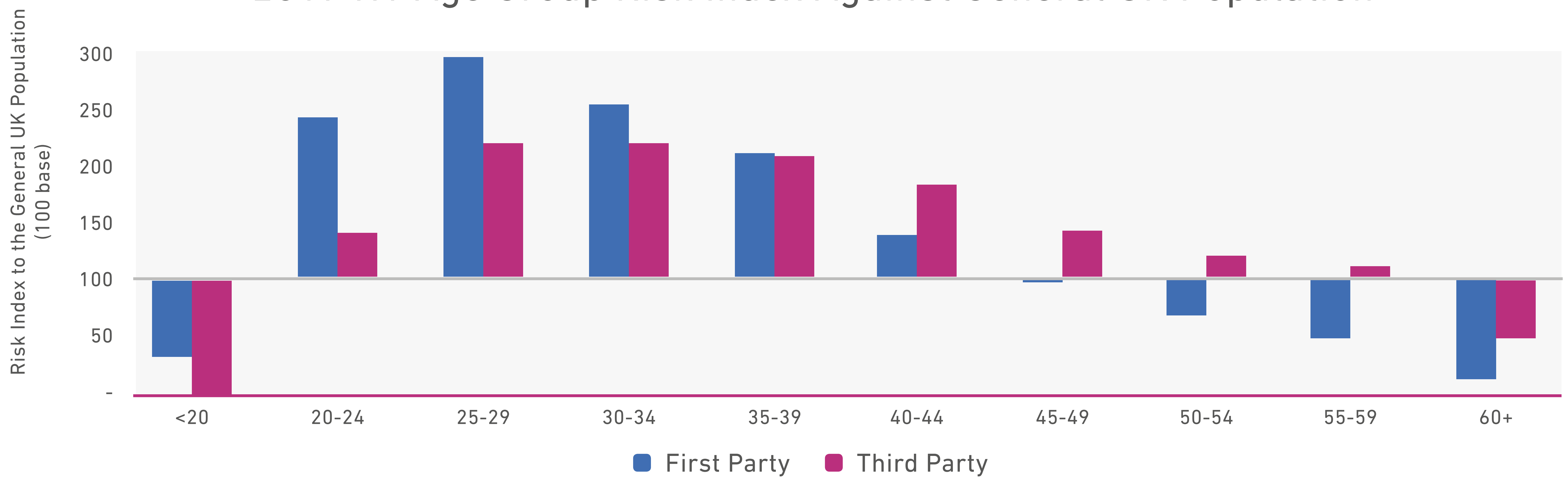
The risk of Third Party fraud associated with the under 20 and over 60 age groups is also significantly below that of the general UK population, with Third Party fraud for under 20s being almost negligible.

It is worth noting that the under 20 and over 60 age groups have much larger populations than the other segments.

2017 H1 Fraud Age Distribution



2017 H1 Age Group Risk Index Against General UK Population



Note: Population data for under 20s includes all population under the age of 18 - i.e. even those people who are not old enough to take credit facilities.

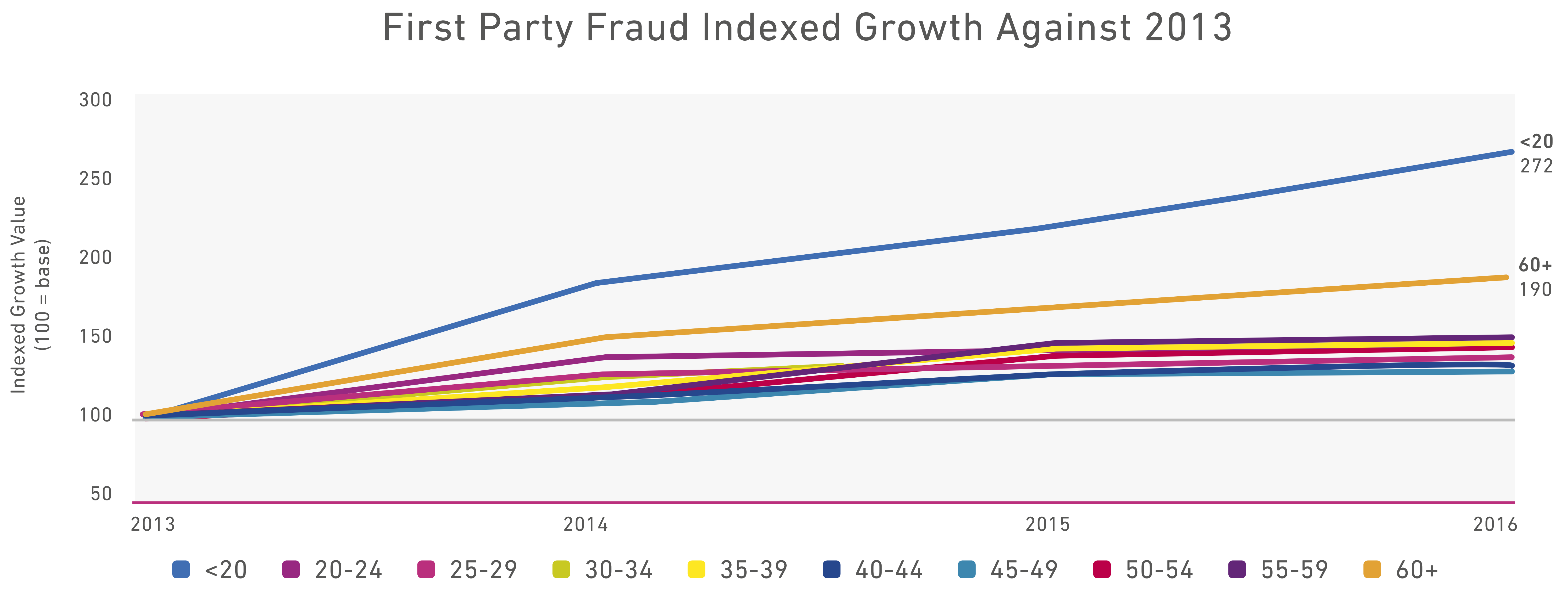
FRAUD BY AGE

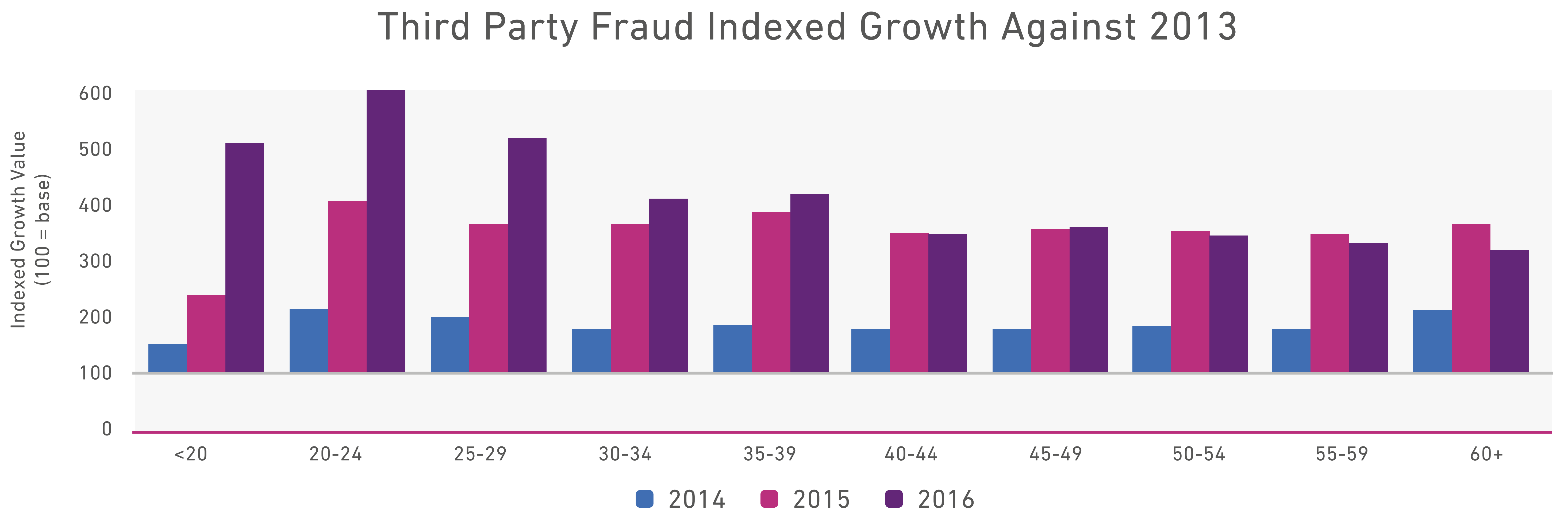
Detected Third Party fraud grew significantly in 2015 (when compared to 2013). There were large increases across all age groups which may signify a change in the way in which fraud was being monitored and detected prior to 2013.

In 2016, there was further growth still in those aged below 39.

There has been a significant growth in those aged under 29 years. The number of detected Third Party frauds committed against 20-24 year olds was 6 times greater in 2016 than in 2013. With under 20s and 25-29 year olds being 5 times greater.

The 50 and over age groups saw a decrease in 2016, relative to 2015.





The insurance fraud trends are interesting. Overall, we have seen a decline in the rate of detected fraud for both policies and claims. More specifically there has been a significant reduction in First Party volumes which has been the greatest contributor to the overall decline.

What we need to look at is whether this is because there is less fraud, or because the fraud controls aren't robust enough to detect fraud against insurance in today's modern, digital economy.

We see most First Party fraud being committed by those in urban areas, with those in rural areas being the most targeted.

Across the market we are seeing the threat of Ghost Broking and the disconnect of on and offline channels causing challenges to fraud prevention and detection.

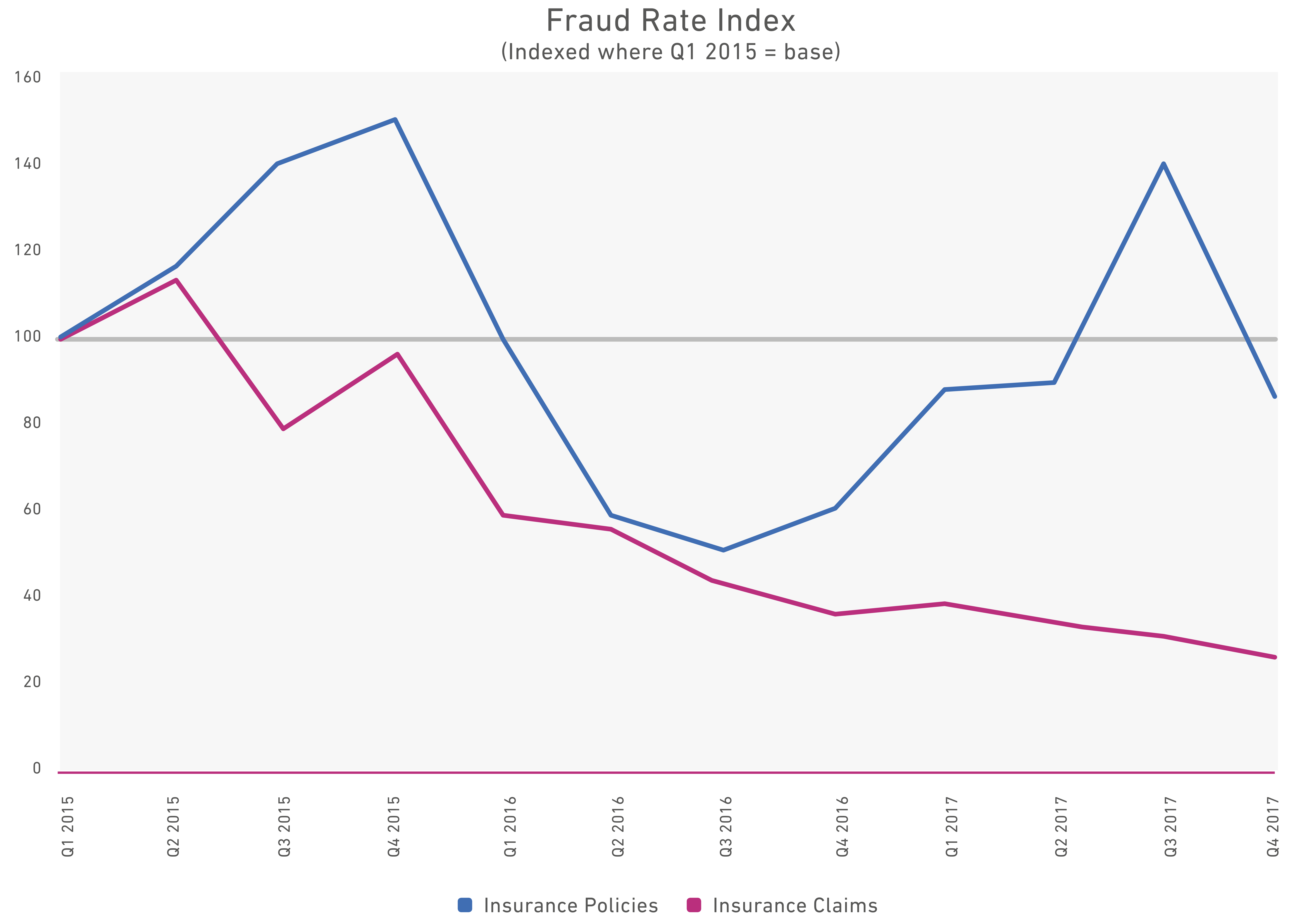
Application fraud trends

Application fraud against Insurance Policies peaked in Q4 2015

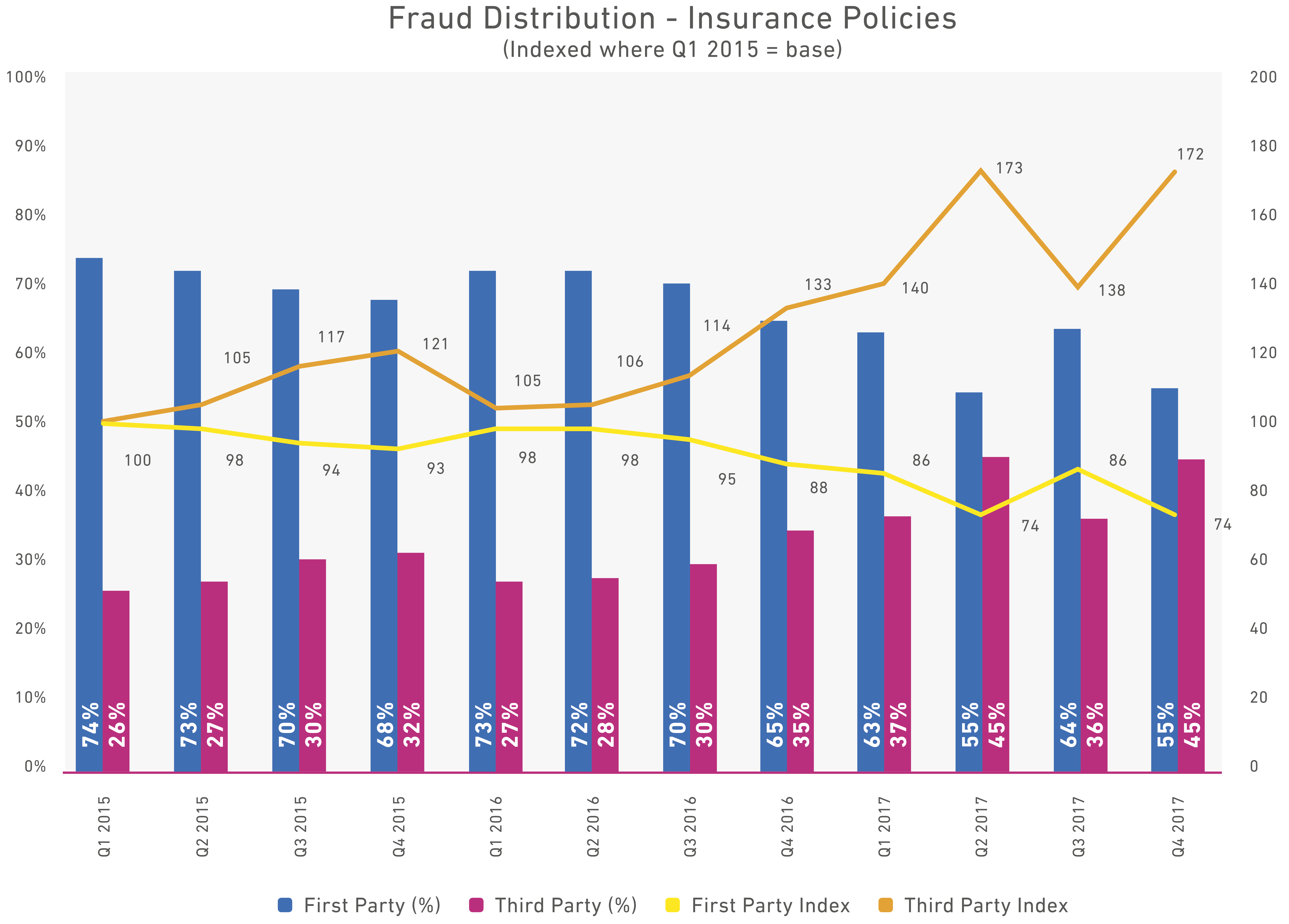
Insurance Claim fraud has fallen consistently throughout the period shown.

When we indexed the actual volumes of First Party and Third Party Insurance Policy fraud we saw a significant reduction in the volume of detected First Party Insurance Policy Frauds.

Third Party has also seen a decline in volume, but much less dramatically.



INSURANCE FRAUD



First Party Insurance Policy Fraud has been declining.

The proportion of First Party Insurance Policy fraud has fallen by 19 percentage points, an all time low split that we saw happen twice during 2017

The significant reduction in First Party volumes has been the greatest contributor in the change in the proportion of First to Third party split for Insurance Policies.

INSURANCE FRAUD

Third Party Fraud: Mosaic analysis

We saw some similar demographic trends in the Third Party Insurance Fraud reportings (covering again Insurance Policies and Insurance Claims). Highlights include:

Rural Reality, Domestic Success and Prestige Positions are more likely to be victim or victims of Third Party Insurance fraud than the general UK population.

The least likely groups to be victim of Third Party Insurance fraud are Vintage Value, Municipal Challenge, Transient Renters, City Prosperity and Family Basics.

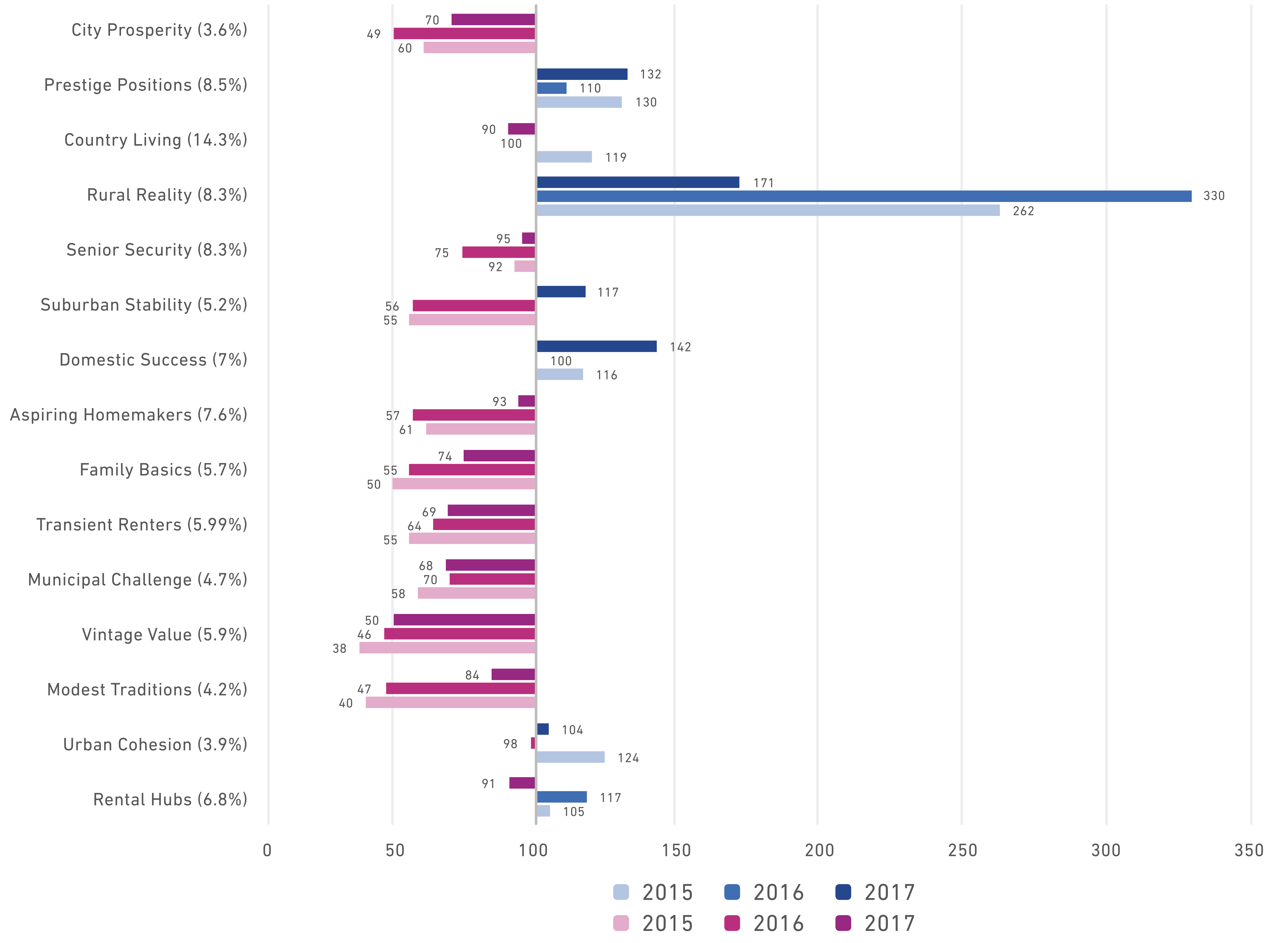
The largest growth was seen in the Suburban Stability group which went from being 0.55 times (-45%) as likely to 1.17 times (+17%) as likely as the general population

The biggest reduction was seen in Rural Reality which reduced from 3.30 times (+230%) as likely in 2016 to 1.71 (+70%) times as likely as the general population in 2017. Important to note however is that despite this group having the biggest decline, it still remains the most targeted group.

NB: 2017 contains partial year results

All Third Party Fraud: Insurance

Fraud Index (100 = base) to UK Population



INSURANCE FRAUD

First Party Fraud: Mosaic analysis

When we looked at the demographics of First Party fraud (for both Insurance Policies and Insurance Claims) we can see that:

Urban Cohesion and Rental Hubs are the only groups that are more likely to commit First Party Insurance fraud than the general UK population.

The least likely groups to commit First Party Insurance fraud are Vintage Value, Senior Security, Modest Traditions, Prestige Positions and Suburban Stability.

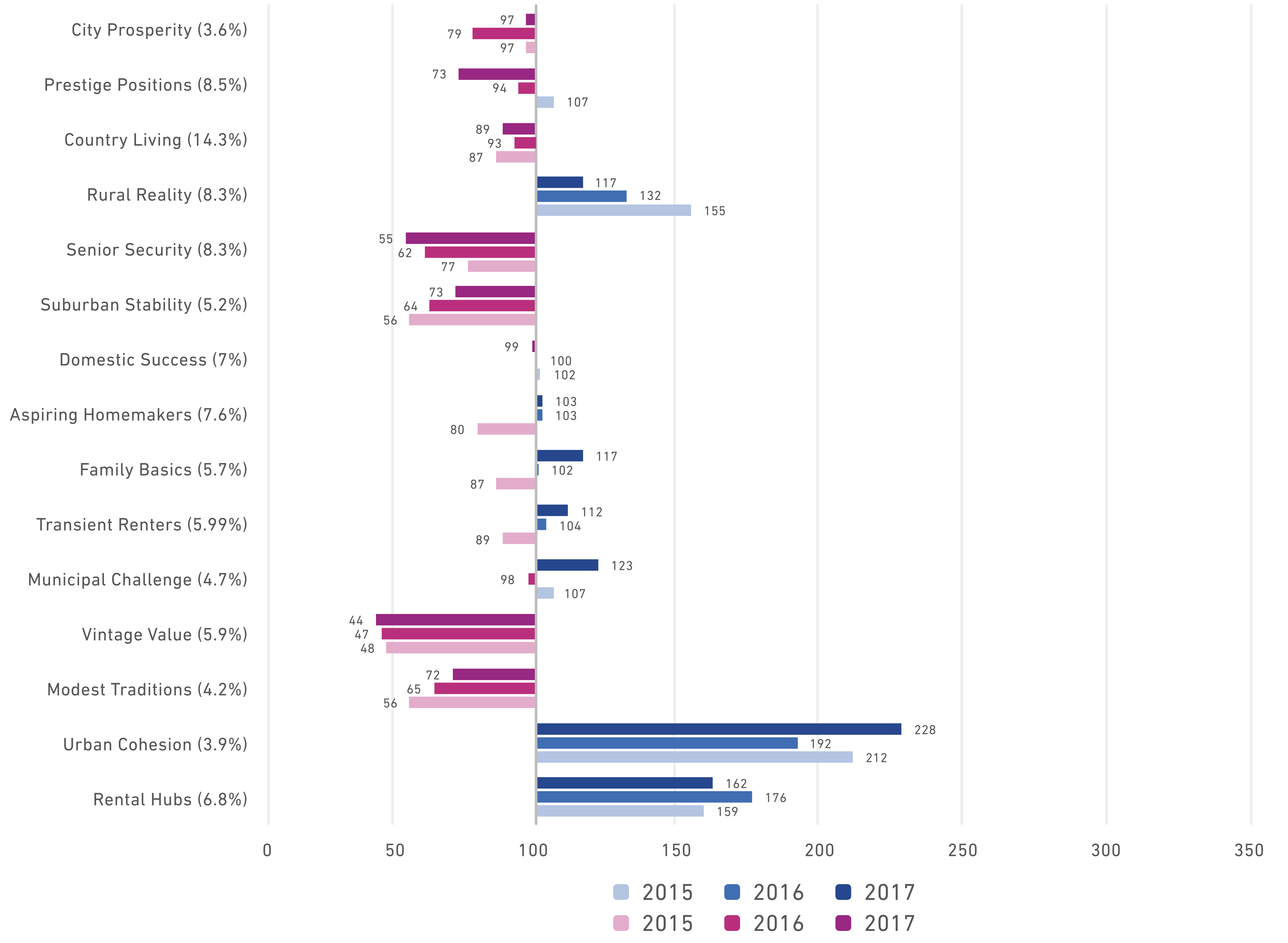
The largest growth was seen in the Urban Cohesion group, which increased from 1.92 times (+92%) more likely in 2016 to being 2.28 times (+128%) more likely in 2017.

The biggest reduction was seen in Prestige Positions which moved from being 1.07 times (+7%) more likely than the base in 2015 to 0.73 times (-27%) less likely than the base in 2017.

NB: 2017 contains partial year results

All First Party Fraud: Insurance

Fraud Index (100 = base) to UK Population



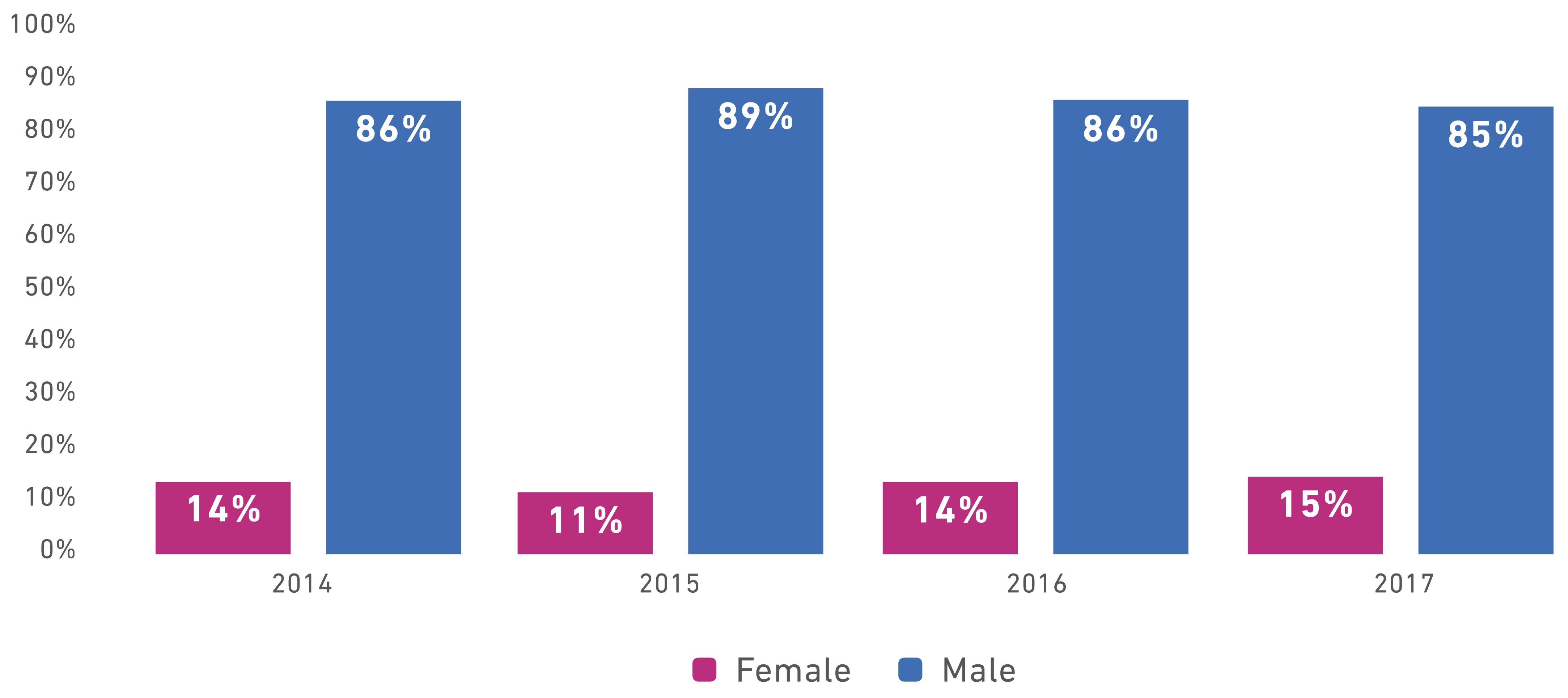
Fraud trends by gender

When we looked at the gender split, we can see that the First Party fraud trends replicate the broader fraud trends seen across all Financial Services:

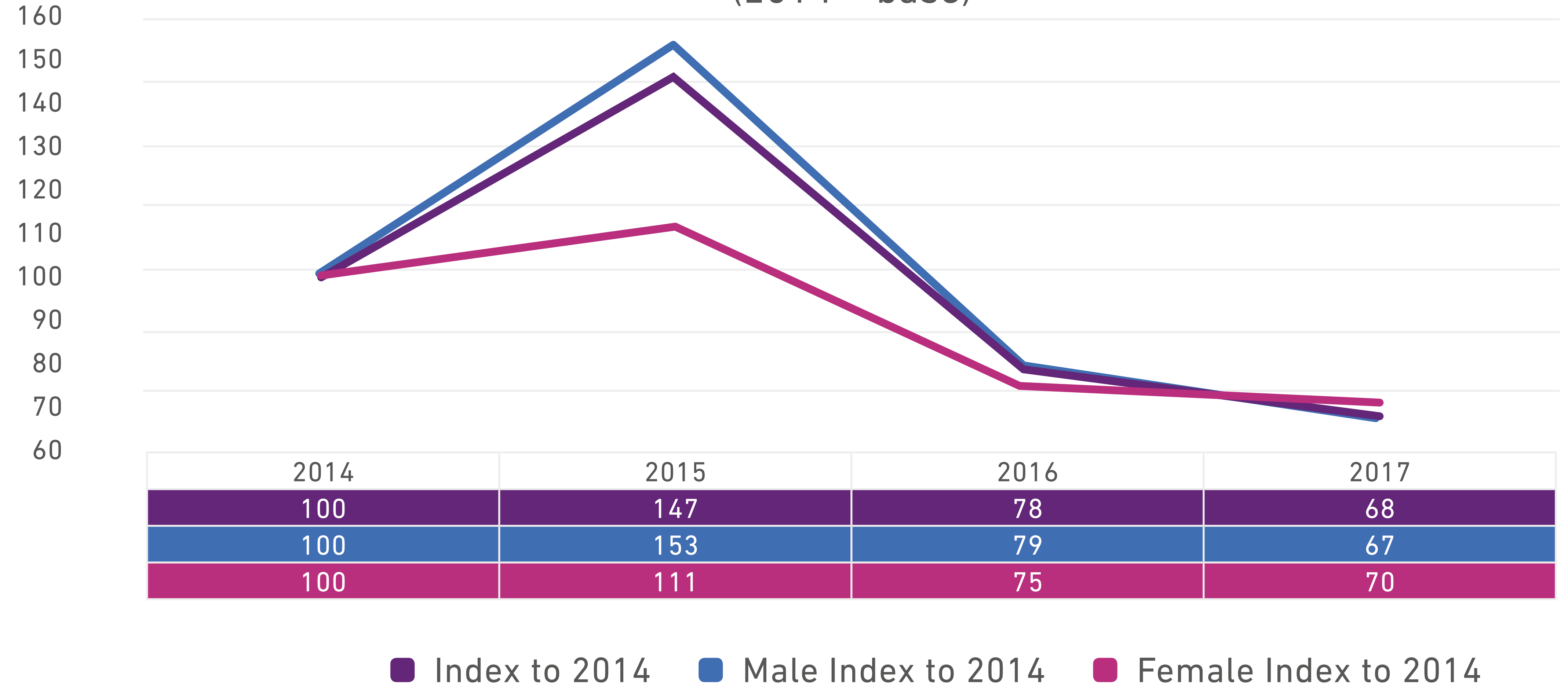
Men remain the most likely to commit First Party Insurance fraud by some margin.

The volumes for both Males and Females have decreased fairly significantly over time, demonstrating a fall in the numbers in detected First Party Insurance fraud, with both Males and Females finishing 2017 with approximately two thirds of the volumes seen in 2014.

Detected First Party Insurance Fraud. Distribution by Gender



Detected First Party Insurance Fraud. Indexed By Gender
(2014 = base)



INSURANCE FRAUD

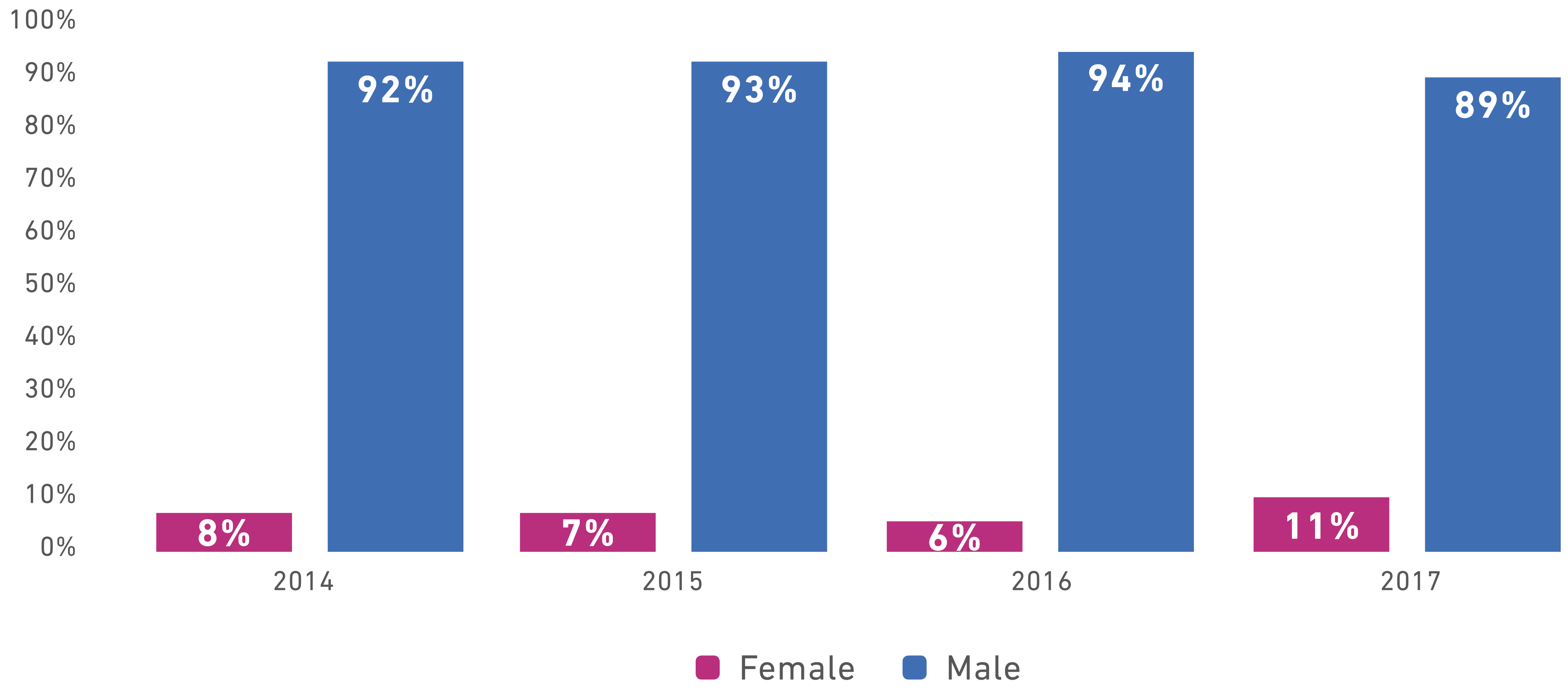
Like we saw in First Party, we have seen largely similar trends in Third Party fraud too:

Men continue to be the most targeted for Insurance fraud by again a very impressive margin.

The volumes for both Males and Females have seen large levels of unpredictability within the index values over the last 4 years. In 2015 both Males and Females saw almost double the volume (compared to 2014), which then reduced in 2016 to be on par for Females but still 1.4 times larger (than in 2014) for Males.

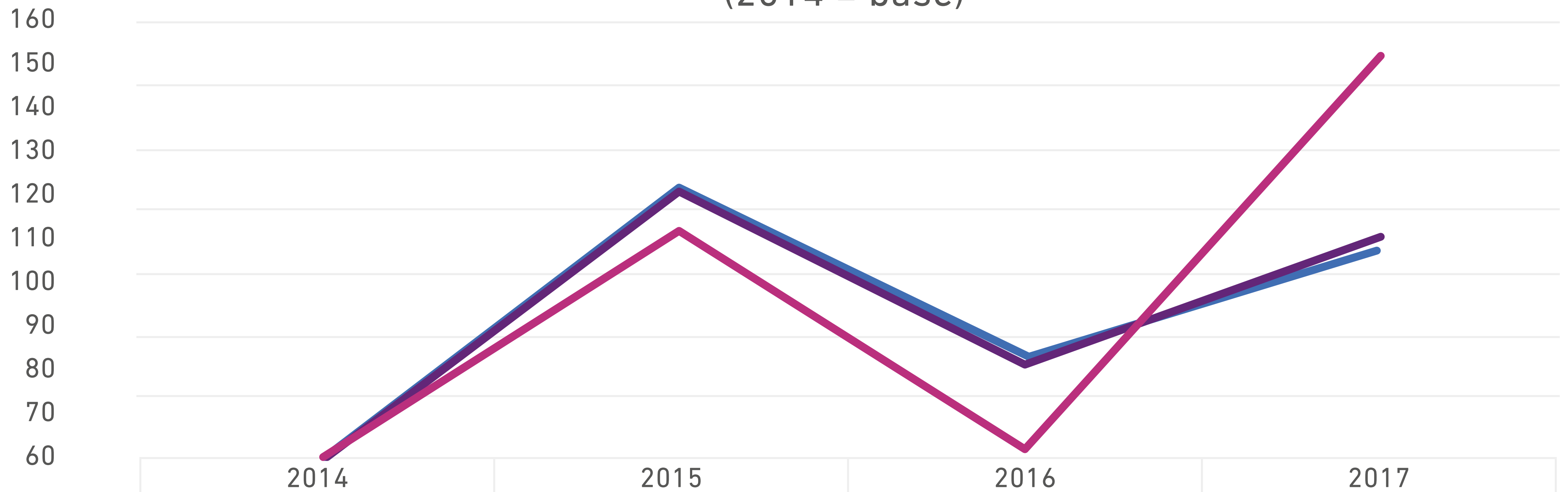
Last calendar year was the most unpredictable for Females, with a jump to 2.6 times greater than in 2014 whilst males balanced between their 2015 and 2016 volumes to 1.8 times the 2014 volume.

Victims of Third Party Insurance Fraud. Distribution by Gender



Detected Third Party Insurance Fraud. Indexed By Gender

(2014 = base)



	2014	2015	2016	2017
Index to 2014	100	147	78	68
Male Index to 2014	100	153	79	67
Female Index to 2014	100	111	75	70

Fraud trends by age distribution

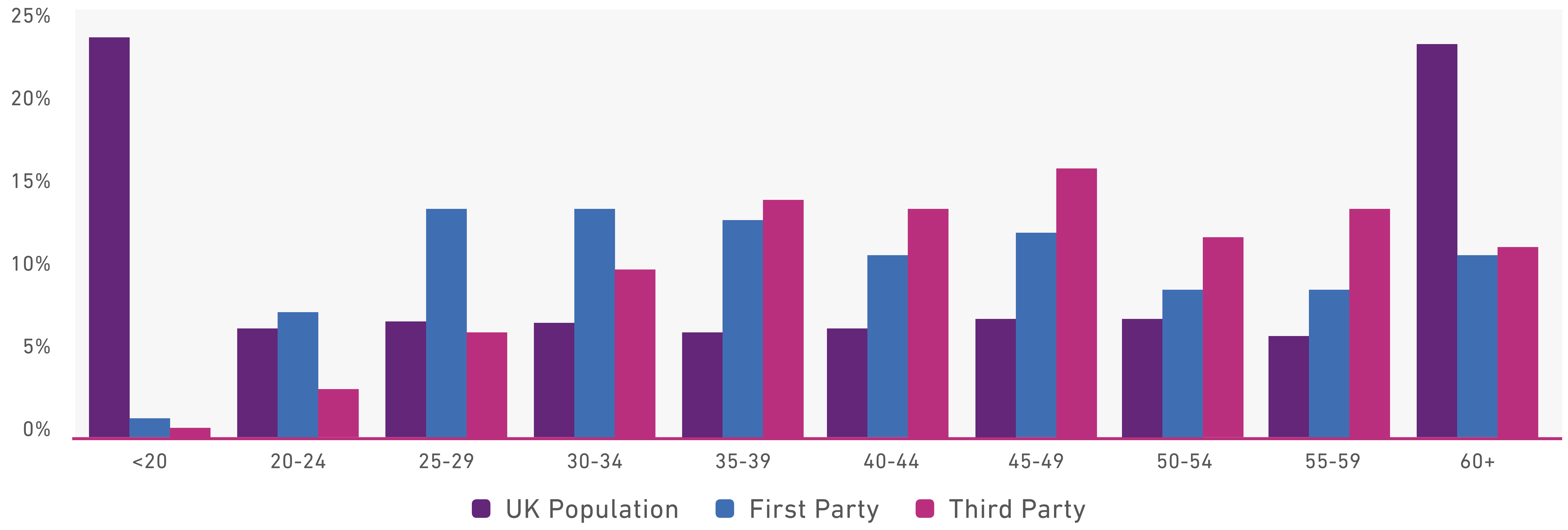
First Party Insurance fraud is most likely to be committed by those aged between 25 and 49. These 5 age groups account for 34% of the population but make up 63% of detected First Party Insurance frauds.

The age group that is least likely to commit First Party insurance fraud are those people who are younger than 20 years old.

The age groups with the highest risk for First Party Insurance fraud (relative to the general UK population) are those between 25 and 39, each of these groups being about twice as likely as the general UK Population.

The age groups with the lowest risk for First Party Insurance fraud are those under 20 and those over 60 – both of these groups are significantly less likely to commit First Party Insurance fraud than the general UK Population.

2017 Fraud Age Distribution



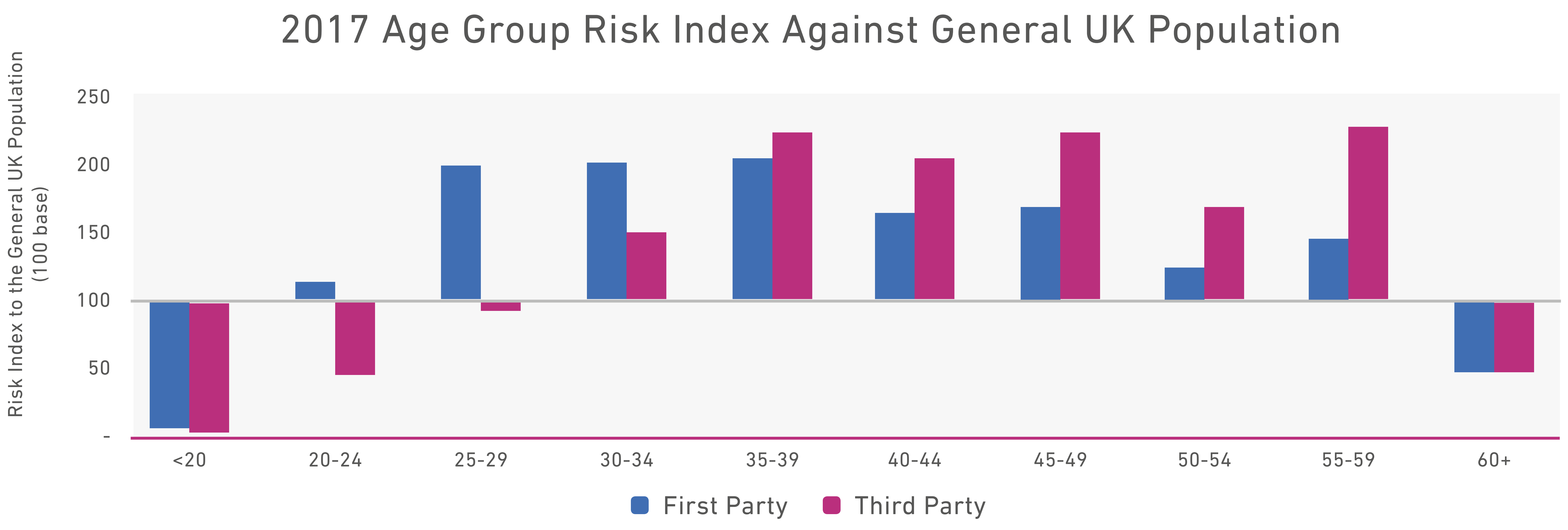
Indexed fraud risk by age group

Third Party Insurance fraud is most likely to target those aged between 35 and 49, as well as those in the 55-59 bracket. These groups account for 26% of the population but make up 57% of victims of Third Party Insurance frauds.

The age groups least likely to be victim of Third Party Insurance fraud are those under the age of 25 (exclusive).

The highest risk age groups (relative to the general UK population) are those from 35-49 and the 55-59 bracket. These groups are all over twice as likely to be targeted than the general UK population.

Like we saw in the First Party Fraud trends, the age groups least at risk of Third Party Insurance fraud (relative to the general UK population) are those under 25 (exclusive), as well as the over 60s. These groups are all significantly less likely to be targeted than the general UK population.



First and Third Party Fraud growth index

The only year which saw increased growth for First Party Insurance fraud (when compared to 2014) was 2015. During 2015 there was a growth across all age groups but we saw a particular growth to those aged under 20 and over 60.

The age groups that saw the most decline in 2017 (relative to 2014) were the 40-44 and 50-54 age groups. These groups ended the year at almost half the volumes we saw during 2014

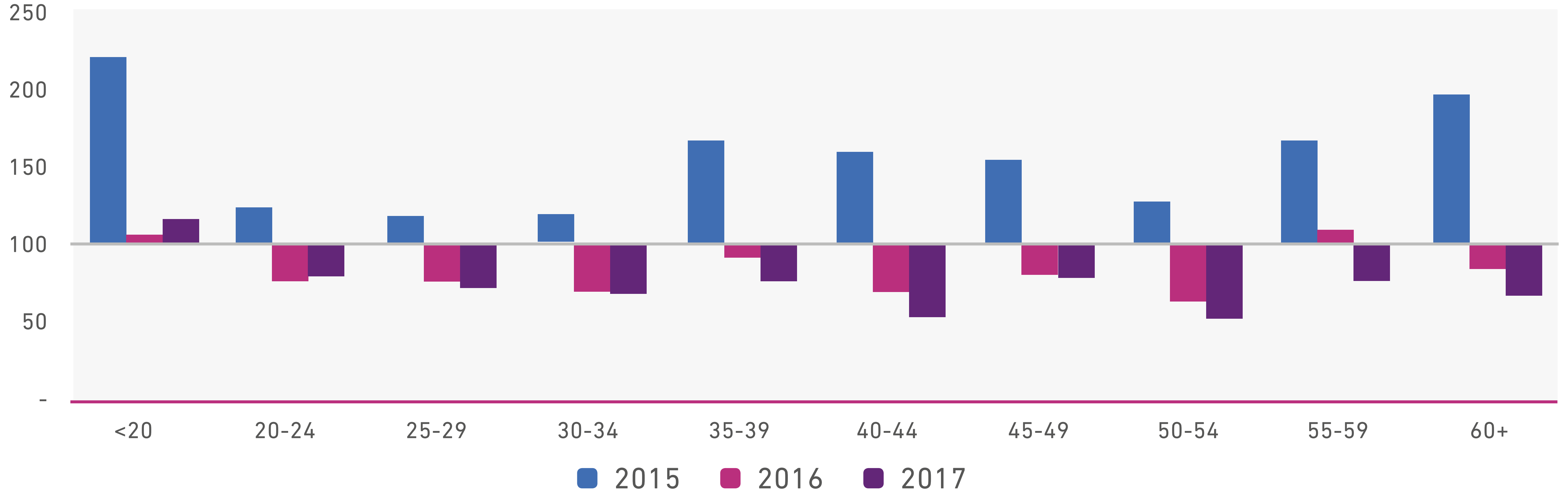
When we compare the data to 2014, we can see that all age groups have seen a decline in First Party Insurance fraud over the last two years

Third Party Insurance fraud has, on the whole, increased since 2014 by varying margins dependent on the age group

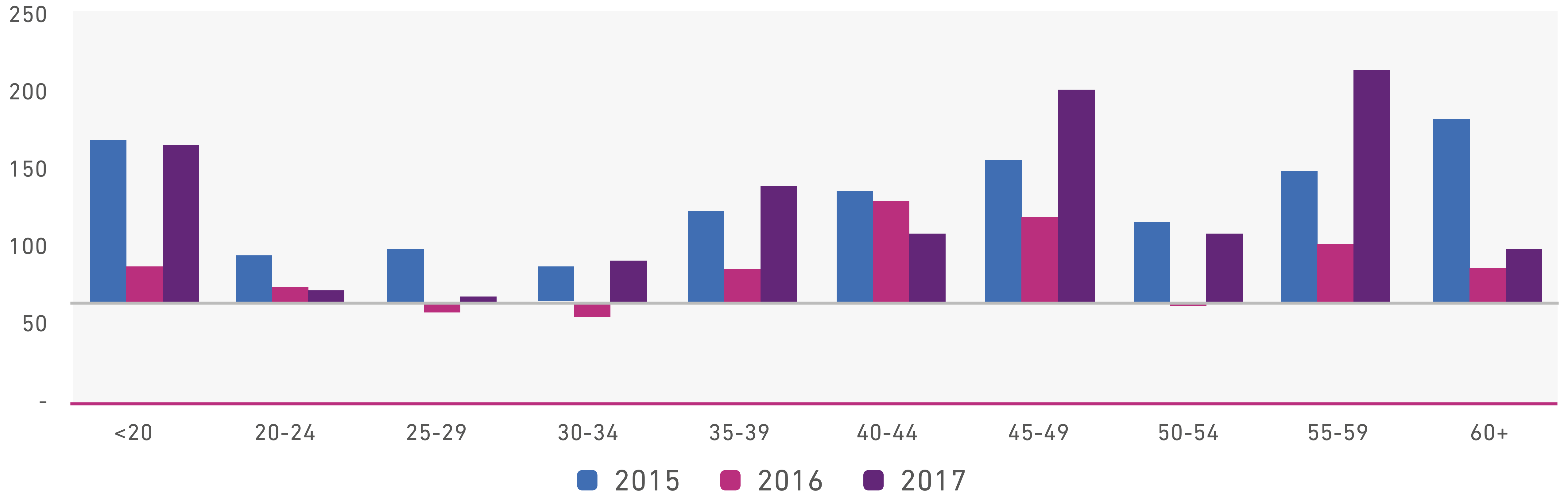
The biggest growth was seen in the 55-59 age group, which saw almost 3.5 times more people become victims of Insurance fraud with the 45-49 also seeing growth of over 3 times.

The smallest growth was in the 20-34 age groups.

First Party Insurance Fraud Indexed Growth
(2014 = base)



Third Party Insurance Fraud Indexed Growth
(2014 = base)



Mid-term adjustments are increasing fraud levels

People changing policies mid-term isn't uncommon. There are various reasons why this happens. One of which is fraud.

One example of this is where a fraudster takes a policy out using a stolen identity. Soon after the policy is in place they start adding drivers and changing details. Commercial users taking personal policies is another example.

The impact of these types of fraud can be huge. Not only on you as the insurer, but also on your genuine customers who end up absorbing the fraud losses through their premiums.

As an insurer, fraud does not just cost you at the point of claim, but loses you revenue, increases operational costs and has potential legal implications from these somewhat hidden areas of fraud.

These fraudulent mid-term adjustments sit side by side with genuine adjustments which can make detecting or preventing it complex – especially when businesses want to ensure there is no unnecessary disruption caused by checks to genuine customers. What isn't hard however, despite perceptions, is integrating the right technologies and tools to prevent and detect this type of risk.

How technology saved over £250k in 90 days

From November 2014 – October 2017, Action Fraud, the national fraud and cyber reporting centre and hosted by the City of London Police, received more than 850 reports linked to ghost broking. The reported losses for both individuals and organisations sits at £631,000. On average, each individual victim lost £769.

Ghost broking has been a problem for insurers, and society, for a long time. One of the biggest challenges with it is that the process of how it is committed doesn't always get picked up by traditional fraud controls. One of the starting points for an insurer looking at the risks presented by ghost broking should be quantifying the scale of the risk.

Some insurers have adopted device based technology to do this review. For one insurer, they uncovered over 7000 frauds, and have now adopted device monitoring at the point of quote which has continued to generate huge returns – saving them over £250k in potential fraud losses in the first 90 days, as well as uncovering a huge ghost broking risk in the first month.

The digital economy is driving up the levels of fraud – and techniques such as ghost broking are a huge digital threat in themselves. But trends in fraud change, and omni-channel fraud can be a huge challenge too. To support this there are fraud controls that can be added to the offline channels as well as online - connecting them. This provides not only a centralised case management architecture, but it relieves the threat of omni-channel fraud without introducing anything additional – just by applying the technology to the entire customer journey, whatever the channel – online or in the call centre / branch for example.

£632k
lost to Ghost Broking

£769
the average loss per individual

7000
frauds found by one insurer

£250k
saved in 90 days from enhancing fraud detection

Source: https://www.actionfraud.police.uk/news/cost-of-car-insurance-fraud-to-victims-revealed-in-new-police-campaign-feb18

Younger people increasingly targeted as fraudulent applications against over 50s drop

Fraudulent credit applications against people in their twenties have soared in the last three years.

The proportion of frauds against those under 30 years old has risen by 6% since 2014, while those aged 50 and up have experienced a decrease of 8.4% over the same period.

Young people are increasingly falling foul of fraudsters who see them as an easier target to open an account. They are more interested in getting an account open so they can use it for money laundering, or to establish a footprint at the bank for further fraudulent activity.

Young people are more likely to live their lives online, so there is a good chance they will not be monitoring their post for statements. They often live in accommodation with shared mail areas, which provides an opportunity for fraudsters to intercept their post.

The 60-plus cohort have experienced the sharpest decline in fraud attacks, down 5.8%, suggesting they have heeded advice to monitor their statements for suspicious activity, given scam emails a wide berth and use a range of passwords online.

UK's online identity habits revealed: Have we reached password peak?

Experian research has revealed a growing divide across generations. This divide is particularly evident in the way the UK population manages its online identities.

The younger generation appears to be more driven by convenience and rarely has more than five unique passwords. They are also far more likely to log in to multiple accounts using a single social media online ID. But what they may not realise is this thirst for convenience leaves them more vulnerable to the threat of identity fraud.

With paper identities now becoming largely obsolete when it comes to verification, replaced by digital online documents, it is much easier to pretend to be another person when you are hidden behind a screen. It has become much rarer for fraudsters to imitate their victims in person.

It's perhaps no surprise, therefore, that a high proportion of over 55s admit to having problems remembering their codes. This memory strain is a growing problem, with 4 in 10 people stating that they need to use a password memory service to help them remember all their passwords.

Over the past 60 years we have witnessed a huge transformation in the tools criminals use to commit fraud. But the use of a password to protect has remained largely stagnant. This exposure can mean fraudsters are able to access even more data and sensitive, valuable information than ever. We're not looking just at financial losses from bank account withdrawals but right across to accessing social accounts which can be equally costly and damaging for people.

Read more about password usage and trends in our infographic

Download white paper:
Future of Identity

Download white paper:
Evolution of Identity

"The typical person in the UK has an estimated 26 online accounts, or online IDs, with between six and 10 passwords that they use regularly. As convenience becomes increasingly important to customers, the all too familiar and often frustrating process of answering several security questions to prove who you are, and recover your password, could become unsustainable. We may well have reached peak password."

View our PSD2 infographic

Watch our video: How regulation is moulding fraud controls?

Read our article on bank transfer fraud

Protecting payments from fraud. The PSD2 and the PSR's response to Bank Transfer Fraud

The PSD2 (Payments Services Directive 2) will enforce the way security is applied to payments and will be totally transformed. The aim is, from a customer point of view, to make the transaction process much more secure to prevent fraud. The side effect of that, certainly in the short term, will be that for customers it will probably get a bit more complicated to complete some transactions because they will need to go through stronger authentication than they used to previously. We will also most likely see Strong Customer Authentication shift application fraud - with Current Accounts being even more vulnerable as other methods become harder to target, or commit fraud against. For example, online payment fraud.

Today, in many cases, to transact online you will need to supply a password as a form of validating your payment is legitimate. Tomorrow you may need something more sophisticated like a token or a biometric to prove it is you.

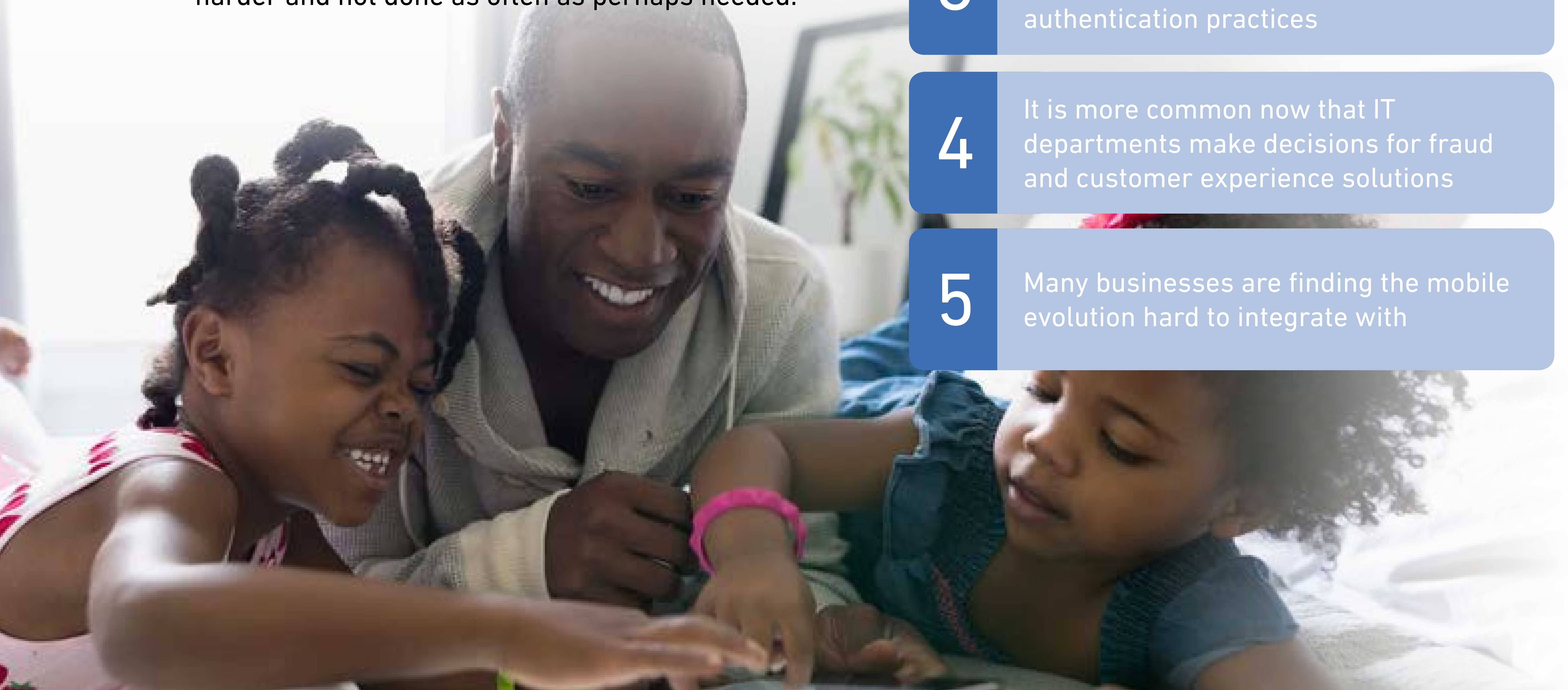
In addition to this there is a new regime around what is called Transaction Risk Assessment. It is a very heavily defined regulation for how you need to assess each transaction in real-time to determine the fraud risk. If there is any sniff of fraud risk then stronger authentication must be used in that case. If the fraud risk is lower then it could be exempted.

Also affecting payments is the Payment Services Regulator (PSR) response to Bank Transfer Fraud and bank transfer payment errors. Recently the PSR has requested both banks and industry do more to protect customers when it comes to bank transfer payments. It would therefore be vigilant to check all bank accounts within the payment process to help protect customers against any identifiable, or unnecessary risks.

Insight from our Global Fraud Report

Through global research we can see how businesses across the world are all grappling with accurately identifying people. This is likely caused by the fact that fraudsters can now access more traditional identity data than ever before – and data on a global scale.

Identifying someone and mitigating fraud are part of the same thing in our opinion. In theory, if you can identify a customer, confirm they are who they say they are, then you can easily stop fraud. But, traditionally identity and fraud sit in two different areas of a business. This makes connecting this data and using it as a holistic view to fraud prevention much harder and not done as often as perhaps needed.



Throughout our research we found 5 key themes:

1. There is a difference between the perception of online security and the reality of secure online transactions
2. Globally, businesses lack confidence in mitigating fraud
3. In general, all businesses believe they are currently providing good customer authentication practices
4. It is more common now that IT departments make decisions for fraud and customer experience solutions
5. Many businesses are finding the mobile evolution hard to integrate with

The biggest challenges of fraud mitigation globally:

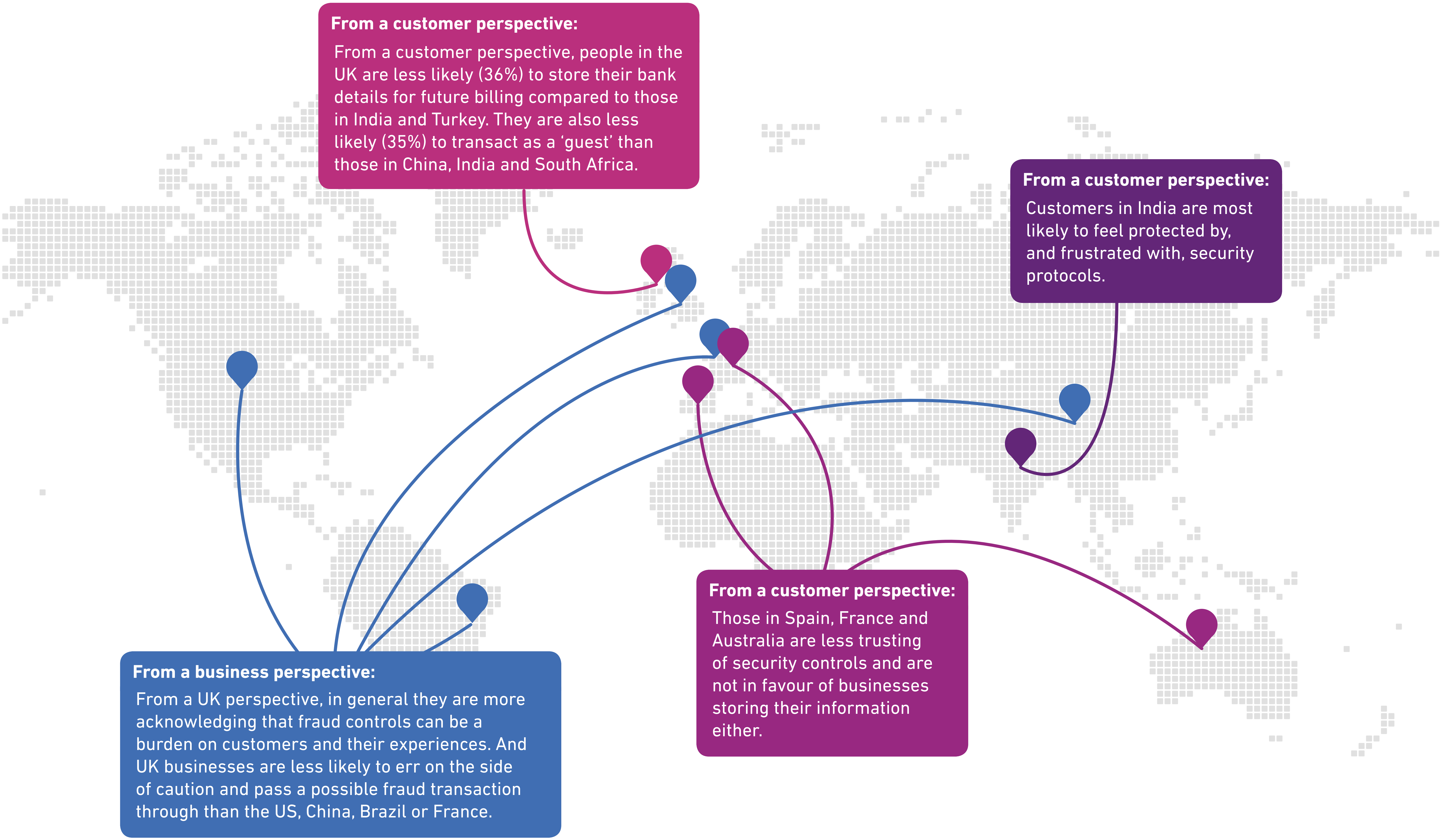
1. There has been a rise in detected fraud globally (65% believe they have detected more, or the same levels)
2. 72% are concerned about the growth they have seen in the levels of fraud
3. Only half of businesses feel in control of their ability to detect fraud
4. Passwords are currently the global favourite for fraud detection. But, in the next 2 years most businesses expect to be using device monitoring to detect fraud as opposed to passwords

GLOBAL FRAUD TRENDS

Attitudes towards fraud

From a customer perspective:
In the UK, specifically, two-thirds of people like to see fraud in the customer journey. They are the most comfortable of every country in sharing their data (when there is visible security in place). They are however the most frustrated with the number of usernames and passwords they have.

From a business perspective:
There is a global general belief that customers take comfort in the measures that are in place to protect their customers against fraud. And less than half of businesses acknowledge that their controls are a nuisance to customers. Three quarters of businesses globally intend on investing in more advanced security controls in response to the current digitised society.



GLOBAL FRAUD TRENDS

You are twice as likely to have a smart home in China, India or Turkey than the UK, US or Australia

In the UK, more people own a smartphone than laptop. In France, this is the opposite.

Watch a 2 minute summary of the global fraud trends

CONCLUDING THOUGHTS

The latter part of this year has started to suggest that we will require even greater vigilance for fraud moving forwards. With data generated globally every second, fraudsters may well start using this more and more to their advantage. Identity theft will remain a problem despite signs of a potential swing towards First Party fraud. Having robust authentication and verification techniques should be a priority for every business.

Digital tools can support a friction free digital journey and accessing fraud data can help you identify any known threats easily. This can also help with Anti Money Laundering as well as an enhanced customer experience as it can be integrated easily, in real-time and require little, if any, customer involvement.

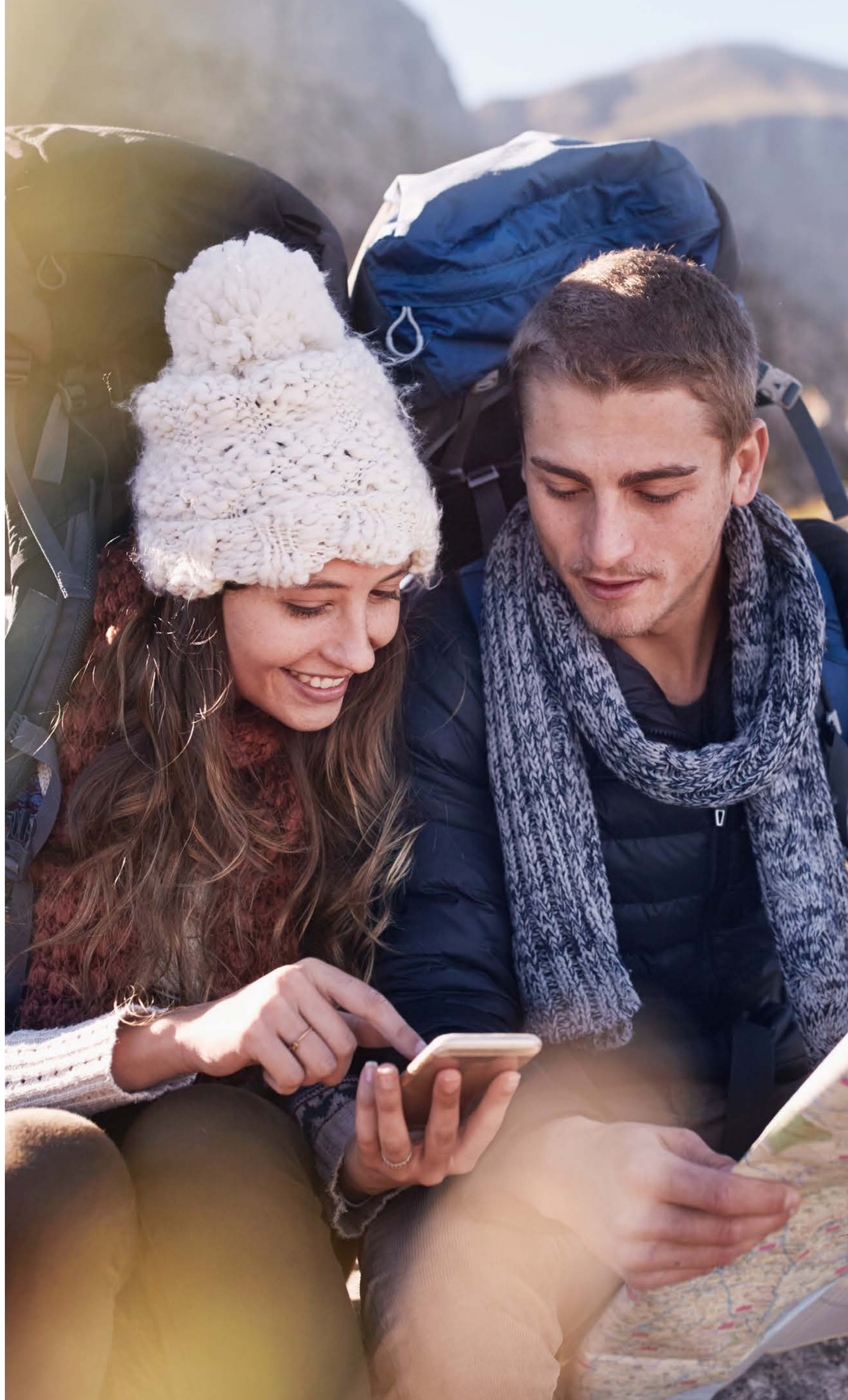
We expect the introduction of regulations next year to help relieve some of the threat of fraud overall. But we expect an increase to application fraud at the same time.

Now, more than ever, you need to be certain that a customer is who they say they are. You will also need to consider what tools you will bring in to support strong customer authentication in order to comply with the PSD2.

It is great to have achieved the rise in detected fraud that we have. As an industry, the measures we are taking to combat the threat are admirable. But, we can do more – together. Continuing to share data and share knowledge will not be a competitive disadvantage but an advantage. The more risk we can remove, the more time we can spend on growing customer relations, driving innovation and focusing on growth instead of losses.

Best wishes,

Nick Mothershaw



AUTHOR BIO

Nick Mothershaw

Director of
Fraud and Identity

LinkedIn

Nick is responsible for the strategic development of Experian's fraud and identity solutions for both the public and private sectors. The Identity Solutions portfolio includes traditional ID verification, challenge questions and document verification. Experian now also offer a full Identity as a Service solution, including ID proofing and strong credential management, and is an identity provider within the GOV.UK/Verify scheme. Fraud solutions in the portfolio include both real time Device and Application Fraud. Ease of integration and change is key in today's fast moving ID and Fraud battleground: Experian's CrossCore platform allows Experian and third party solutions to be joined together to achieve a consolidated decision with one-stop referral review. In addition Experian provides a number of Public sector specific products such to assist in council tax fraud, benefit fraud and social housing fraud.

Key to the role is to ensure clients gain maximum value from Experian solutions by offering highly skilled consultancy services, expert analytics, trend analysis and insight around ever evolving fraud attack vectors.

Nick has been with Experian for over 15 years. Previously Nick was a director of a company providing global solutions within the broader Criminal Justice arena. Here he architected the Scottish Intelligence Database: the only cross force intelligence sharing and matching solution in the UK. He also exported best of breed UK crime management systems to Australia and the US. Nick has also worked for IBM in the healthcare and utilities sector, and began his career as a mainframe systems analyst with a large UK brewer and pub company. He has a degree in Computer Science.

Bookmark our Latest Thinking, Identity and Fraud Page, for up-to-date insight and reports, including the Global Fraud Report.

Registered office address:
The Sir John Peace Building, Experian Way,
NG2 Business Park, Nottingham, NG80 1ZZ

E: GTMcontactus@experian.com
www.experian.co.uk/identity-and-fraud