the resilience to fraud of the UK insurance sector

research into how well UK insurance companies protect themselves

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with a foreword by Stephen Harrison, CEO of the National Fraud Authority
and a preface by Phil Bird, Director of the Insurance Fraud Bureau

2012 REPORT
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Fraud harms every sector of the UK economy; it harms businesses, reduces profitability and adds cost to end consumers who ultimately bear the price of fraud. According to the Annual Fraud Indicator, compiled by the National Fraud Authority (NFA), the loss to the UK economy from fraud is estimated to be at least £73 billion: in hard economic times this is money that no one can afford to lose.

In late 2011 the NFA set out a new approach to tackling fraud in Fighting Fraud Together, the national strategic plan to reduce fraud. The ambition of the strategy is to make our country more resilient to fraud through achieving a step change in awareness of fraud, preventing fraud through the implementation of stronger systems and controls, and strengthening our response to fraud by disrupting and punishing more fraudsters. So far thirty seven organisations have signed up to Fighting Fraud Together including the Association of British Insurers.

The insurance industry has led the way in developing a collaborative cross sector approach to tackling fraud as exemplified by the creation of the Insurance Fraud Bureau (IFB). The IFB enables the sharing of information and intelligence about those who commit fraud against the insurance industry and detects and prevents fraud across the industry. The IFB demonstrates that tackling fraud is not a competitive issue and in fact is best achieved through collaboration.

The insurance industry is also stepping up to the plate in terms of strengthening the enforcement response through the funding of a dedicated police unit in the City of London Police. The Insurance Fraud Enforcement Department has already had notable success in bringing fraudsters to justice and should serve as a deterrent to those who think that they can get away with insurance fraud.

But there is always more that individual organisations can do to protect themselves from fraud. The first line of defence against fraud is the resilience of the individual company; its systems, processes and checks, and most importantly the vigilance of staff that scrutinise policies and claims. That is why we welcome this report by PKF in collaboration with the University of Portsmouth as it provides a way that organisations can benchmark their own response and act intelligently to improve their resilience to fraud.

By working together and taking individual responsibility we can beat fraud.
PKF’s report provides a valuable opportunity for UK insurers to take a step back and consider how well positioned their organisations are in the fight against insurance fraud.

The cost of fraud to our industry is well publicised – estimated to be around £2.1 billion every year and adding £50 to every honest policyholder’s premium. There is, of course, a broad spectrum of ‘fraudsters’ exploiting our industry – from opportunists exaggerating losses, right through to organised criminal gangs orchestrating multi-million pound ‘crash for cash’ scams.

Fighting all forms of fraud continues to be a top priority for our industry and enormous strides have been taken in the last five years to improve both detection and prevention. Sophisticated counter-fraud software, expert insurer fraud teams and a collaborative approach to tackling cross-industry scams through the Insurance Fraud Bureau (IFB) are all important indicators of industry progress and commitment. It is encouraging to see that progress reflected in the report’s findings.

In the last year alone, £919 million worth of fraud was detected by the insurance industry. More so than ever before, tackling fraud has become a source of competitive advantage in the marketplace – an integral part of an insurer’s business plan.

2012 is shaping up to be a landmark year in the evolution of the insurance industry’s counter-fraud tactics. January’s launch of a dedicated police unit – the Insurance Fraud Enforcement Department (IFED) – has significantly bolstered our enforcement capabilities. Later this year, the ground-breaking Insurance Fraud Register (IFR) – developed by the IFB – will launch, protecting insurers by sifting known fraudsters at the point of purchase.

IFB’s development of new data sharing agreements and analytical products to prevent application fraud is another example of the industry’s commitment to tackling the problem from all angles, plugging some of the gaps identified by PKF’s report.

Our challenge will always be staying one step ahead of the fraudster. Commitment to continuous improvement of counter-fraud controls and the dissemination of best practice and knowledge will be fundamental to our success. PKF’s report has provided a valuable contribution to that process.
INTRODUCTION

This Report considers how well the UK Insurance Sector protects itself against fraud. It is the most comprehensive report of its type ever undertaken, and has been undertaken by PKF (UK) LLP, the Centre for Counter Fraud Studies at University of Portsmouth (CCFS) and the Insurance Fraud Investigators Group (IFIG).

Fraud is a problem which undermines the stability and financial health of companies from across the economy. It is not a victimless crime, but one which reduces the value of companies for us as shareholders, undermines our job security as employees, and piles additional costs on us as consumers. More widely denies us the quality of public services that we pay our taxes to get and even denies the beneficiaries of charities the full benefit of the donations which we make.

Across the UK economy as a whole, the Government’s National Fraud Authority estimates that £73 billion is lost to fraud, with £2.1 billion of the losses relating to the insurance sector. This reflects a change over the last decade or so, where it has become possible to measure the financial cost of fraud in a statistically valid and highly accurate manner. The actual losses may be higher.

The latest global research (across a massive dataset) indicates that average losses to fraud (and error) currently run at 5.7%. In 2010 the net worldwide premium income of the UK insurance sector was £198.7 billion. If this figure is applied to the insurance sector in the UK, it equates to losses of over £10 billion.

The key issue to be addressed in minimising the cost of fraud in the insurance sector is the improvement of fraud resilience. This is not just how quickly fraud is responded to after fraud has taken place and losses have been incurred but the extent to which a company is properly protected against fraud in the first place, with the cost of fraud measured, managed and minimised.

PKF and the Centre for Counter Fraud Studies at University of Portsmouth already have data concerning the fraud resilience of almost 700 companies across the UK economy. This includes data derived from a specific survey of the insurance sector. By focussing in on the insurance sector, this Report provides an unprecedented insight into the strength of arrangements to protect it against fraud.

The authors of this Report support the development of work, over the last decade, to treat fraud as a business issue like any other — something to be quantified and assessed, with clear metrics showing the speed of progress in reducing its cost and impact. Historically, this has not been the case. Hoping that fraud will not happen, or at best reacting when it inevitably does, simply does not constitute a viable approach in the 21st Century.

The development of the counter fraud profession (exemplified in the 13,000+ people who now hold Foundation, Advanced, Degree or Masters level Counter Fraud Specialist or Certified Fraud Examiner qualifications in the UK) and of proper professional standards, like any other area of professional life, have made it possible to do much better.

1 ‘The Financial Cost of Fraud Report 2011’ - Jim Gee, Dr Mark Button and Graham Brooks - published by PKF (UK) LLP and the Centre for Counter Fraud Studies at University of Portsmouth
As this research shows, we can now consider where the weaknesses are which allow fraud to take place, and take pre-emptive action to minimise losses. This Report provides a view of the fraud landscape, which every organisation working in the UK insurance sector should take note of. Being serious about providing quality insurance services surely must include ensuring that this unnecessary cost is minimised.

The authors of this Report are committed to research such as this making a real difference. By expanding the extent of knowledge that the insurance sector holds about its own arrangements, we can help to ensure better quality decisions are taken. The research has allowed the creation of an important database of fraud resilience information concerning insurance.

Readers of this Report can use a free on-line Fraud Resilience Self-Assessment Tool (FRSAT) – at www.pkfapps.co.uk/fraud - to rate their own organisations and to rank them against other organisations.

Also, at the back of this Report, we have highlighted a low cost ‘Fraud Resilience Review’ benchmarking service for organisations in the insurance sector who want to know more and who want to improve the extent to which they are protected against fraud.

PKF and the Centre for Counter Fraud Studies at the University of Portsmouth will repeat this research regularly and report our findings.
executive summary
1.1 This Report is the most extensive and most comprehensive Report yet undertaken into the resilience of the UK insurance sector to fraud.

1.2 35 insurance companies and 21 organisations providing services to the sector responded and fully completed a survey questionnaire which was widely distributed with the assistance of the IFIG. PKF and CCFS are very grateful for IFIG’s help in ensuring a representative response from the sector.

1.3 Each organisation answered 29 questions about the effectiveness of their arrangements to counter fraud. These questions covered every aspect of the work:

• Adopting the right strategy
• Accurately identifying the risks and costs
• Creating and maintaining a strong structure
• Taking action to tackle the problem
• Defining success and delivering results

1.4 The Report’s key findings show that, overall, insurance companies achieved a mean score of 36.9 out of a possible score of 50 (service provider organisations achieved a mean score of 41). This compares with a mean score among public sector organisations of 34.4, private sector companies generally of 30.6 and charities of 24.2.

1.5 Insurance companies performed best in the following areas:

• 100% had arrangements in place for the prompt reporting of suspected fraud
• 94.3% had a programme of work in place to develop a real anti-fraud culture
• 94.3% sought to design fraud out of new policies and systems
• 94.3% had a formal or informal policy in place setting out how they try to detect possible fraud
• 91.4% had adopted a written counter fraud strategy

1.6 Insurance sector companies performed worst in the following areas:

• Only 25.7% had ensured that those working to counter fraud had received specialist professional training and accreditation
• Only just over half (54.7%) deployed analytical intelligence techniques
• Only 57.1% used the criminal and civil law to the full in recovering losses
• Only 62.9% - less than two-thirds - had a clear policy on the recovery of losses
• Only 62.9% sought to evaluate the progress of work to develop a real anti-fraud culture
the background to the research and the nature of the data
2.1 In 2009 the Centre for Counter Fraud Studies (CCFS) published its first report: The Resilience to Fraud of UK Plc. This highlighted inherent weaknesses in the strategies and structures in place in the public and private sector to counter fraud. The report was the first of its type and was based upon the latest professional standards for counter fraud work. This research was renewed in 2010 covering 29 different factors which assess the extent to which respondents meet all the standards relevant to effective resilience against fraud.

2.2 The overall results represent the most accurate assessment which has ever been undertaken of how well UK Plc is developing strategies and structures to counter fraud and were published in ‘The Resilience to fraud of UK Plc’ in February 2011.

2.3 This Report goes even further. It focuses on the UK insurance sector with the latest sector-specific data. To conduct the research, invitations to participate were sent out which directed respondents to the survey website ‘Survey Monkey’, to fill in a questionnaire online.

2.4 The researchers received 56 usable questionnaires from organisations in the insurance sector – 35 from insurance companies and 21 from service provider organisations.

2.5 Those responding are necessarily self-selecting. It is likely that they represent those companies who are more interested in this area of work and, consequently, who may also have better arrangements in place than is the case generally. Thus this Report probably presents a more optimistic picture of what is happening than is actually the reality. This should be remembered where the answers to particular questions reveal that professional standards are substantially not being met.

2.6 The Report assesses the answers given to 29 questions. In respect of each one, a graph and then a brief analysis of the response is set out. At the end of the question by question analysis an overall assessment has been undertaken.

2.7 An approach is used where each of the 29 answers has been weighted. The allocation of points has been determined on the basis of the relative importance of each aspect of counter fraud work.

2 CIPFA - ‘Managing the Risk of Fraud’ guidance which one of the authors of this Report (Jim Gee) jointly wrote.
3 //

detailed analysis
3.1 This section of the Report looks at each aspect of resilience to fraud and the nature of the response from the organisations which were surveyed. It looks at the answers to the 29 questions in the survey, broken down into five key areas:

- Adopting the right strategy
- Accurately identifying the risks and costs
- Creating and maintaining a strong structure
- Taking action to tackle the problem
- Defining success and delivering results

3.2 It then looks at the overall picture and considers what this means.

Adopting the right strategy

3.3 Question 1 - Does the organisation have a written counter fraud and corruption strategy?

3.4 The starting point for any sound attempt to minimise the risk of fraud is to have a strategy to counter it. 91.4% of insurance companies answered Yes to this question (the figure for service provider organisations was even better - 100%). This compares with 75% of private sector companies generally. This is a result which compares very well with other sectors.

3.5 Question 2 - Does the strategy have a clear objective of better outcomes (i.e. reduced losses to fraud) and not just activity (i.e. the number of investigations, prosecutions, etc.)?

3.6 85.7% of insurance companies indicated that they pursued a strategic approach to achieve better outcomes (the figure for service provider organisations was 95.2%). This compares with 70% of the private sector generally. Having clear intended outcomes and not just seeking to generate activity is very important. Mere activity represents a cost which an insurance company has to bear, while activity directed to achieve beneficial outcomes (for example, a reduction in fraud losses and the consequent financial benefits) can represent an investment in a much greater return.

3.7 Question 3 - Has the strategy been directly agreed by those with executive authority for the organisation?

3.8 74.3% of insurance companies indicated that their counter fraud strategy had been agreed at the most senior executive levels (the figure for service provider organisations was 100%). This compares with the standard set by the private sector generally, where 69% answered Yes to this question. It is very important for senior Directors with executive authority to have bought into the strategy and to understand the real difference that effective counter fraud work can make.
Accurately identifying the risks and costs

3.9  Question 4 - Are fraud and corruption risks included in the organisation’s Risk Register (or equivalent)?

3.10  91.4% of insurance companies indicated that they included fraud and corruption risks in their risk register (the figure for service provider organisations was 85.7%), a higher figure than the 88% achieved in the private sector generally. It is important that insurance companies understand the financial and reputational risk that fraud and corruption represent; that they record this systematically and thus can consider how to mitigate such risks.

3.11  Question 5 - Does the organisation seek to estimate the total economic cost of fraud to it?

3.12  68.6% of insurance companies indicated that they sought to estimate the true cost of fraud to them (the figure for service provider organisations was 33.3%, dramatically worse). This compares with the 31% of private sector companies generally, 29% of public sector bodies and 30% of charity sector organisations. This is important in developing a proportionate, properly resourced strategy to counter it. However, this result still means that more than 30% of insurance companies are seeking to counter fraud without knowing the scale of the problem that they face. There is therefore more scope for the insurance sector to improve by seeking to accurately assess the cost of fraud. National figures from the National Fraud Authority are welcome, however, if you do not know the nature and scale of the problem within your own organisation, then how can you implement the right solution?

3.13  Question 6 - Does the organisation use estimates of losses to make informed judgements about levels of budgetary investment in its work countering fraud and corruption?

3.14  62.9% of insurance companies used such estimates to make an informed judgement about how much to invest in countering fraud (the figure for service provider organisations was 57.1%). Thus, unlike many other areas where resources are invested, over a third of insurance companies do not determine what they spend on countering fraud on the basis of known losses. It is important to understand that real financial benefits can be delivered in this area and a multiple return on the costs of the work.
Creating and maintaining a strong structure

3.15 Question 7 - Do those tasked with countering fraud and corruption have any special authority to pursue their remit effectively?

3.16 82.9% of insurance companies indicated that their staff working in this area did have some special authority to do so (the figure for service provider organisations was 90.5%). This compares with the figure for the private sector generally of 77%. Fraud is a difficult issue and can sometimes involve those in positions of relative power within companies. This means that, to counter it effectively, it can be important to have a degree of special authority.

3.17 Question 8 - Are reports about work to counter fraud and corruption discussed at Board level?

3.18 80% of insurance companies indicated that they did discuss these issues at Board-level (the figure for service provider organisations was 76.2%). Board-level discussions about fraud can be an indicator of how seriously an organisation takes this problem. Fraud is present (hidden or apparent) in any organisation of a reasonable size. It is also clearly preferable for such discussions to anticipate (and thus seek to pre-empt) such problems than for them to occur in reaction once a significant fraud has happened.

3.19 Question 9 - Have all those working to counter fraud and corruption received the specialist professional training and accreditation for their role?

3.20 Only a quarter of responding insurance companies (25.7%) indicated that they had professionally trained staff to counter fraud (the figure for service provider organisations was 66.7%). To some extent this combination of results reflects the fact that some insurance companies outsource some of their counter fraud work. Nevertheless, the figure for insurance companies are significantly worse than the private sector generally (35%) and means that almost three-quarters of companies do not have professionally trained staff addressing this issue.

3.21 This question enabled a broad range of courses to be considered as professional training and accreditation, so the figure is particularly disappointing. There are a wide variety of professional training courses available to enhance the professionalism of counter fraud staff. In the authors’ view, the best is the Accredited Counter Fraud Specialist (ACFS) qualification, which is comprehensive, properly assessed and tested and linked to subsequent Diploma, Degree and Masters qualifications. Professional training provides greater assurance about the quality of the work undertaken and there is clearly much to be done in this respect. The ACFS qualification is also widely recognised by the public sector – if insurance companies are to maximise data sharing opportunities with HMRC and other public
bodies to counter fraud then a commonly recognised qualification will help to give those bodies reassurance in the way in which their data will be handled.

3.22 Question 10 - Do those working in counter fraud and corruption regularly update and refresh their skills?

3.23 68.6% of insurance companies had staff who refresh their skills in this area (the figure for service provider organisations was 100%). This compares with the 58% for private sector companies generally.

3.24 Question 11 - Are checks undertaken on the propriety of new staff (beyond simply reference checks)?

3.25 80% of insurance companies indicated that they checked the propriety of new staff (beyond reference checks) (the figure for service provider organisations was 85.7%). It is important to screen prospective staff, to ensure that they meet high standards of propriety and that those with a history of dishonesty or deception are not employed in positions where this would make them a risk. There are now professional standards for the ‘propriety checks’ process. The action taken includes assessing CVs for accuracy, checking references, and undertaking various financial and legal checks.

3.26 Question 12 - Are there formal and informal relationships in place with relevant external agencies or companies (e.g. the police, specialist legal firms who advise on civil litigation?)

3.27 In terms of having in place the relationships with other agencies and companies which might be needed, if a substantial fraud occurs, the survey indicated that 85.7% of insurance companies had formal relationships in place. Fraud is potentially both a crime and a civil legal issue and it is important to develop relations with bodies which can enhance the effectiveness of those countering fraud. Ideally these should be on a formal basis, but could also be informal.

3.28 Question 13 - Does the organisation have a clear programme of work attempting to create a real anti-fraud and corruption culture?

3.29 94.3% of insurance companies indicated that they had a clear programme of work to create an anti-fraud culture (the figure for service provider organisations was 95.2%). Pre-empting fraud is very important and developing an anti-fraud culture (growing the size of and mobilising the honest majority) is central to achieving that.
3.30 Question 14 - Has the organisation made clear that it has a zero tolerance approach to fraud and corruption?

3.31 80% of insurance companies indicated that they had made it clear that their companies had a ‘zero tolerance’ approach to fraud and corruption (the figure for service provider organisations was 90.5%). Making it clear that fraud is not tolerated is important, as long as this does not accompany a view that fraud can be reduced to ‘zero’. Given the nature of the problem, this is unrealistic – it can be reduced to an absolute minimum (at present found to be just under 1%).

3.32 Question 15 - Are there arrangements in place to evaluate the extent to which an anti-fraud and corruption culture exists or is developing throughout the organisation?

3.33 Despite 94.3% of insurance companies implementing a clear programme of work to develop an anti-fraud culture only 62.9% indicated, in response to this question, that they evaluated the growth of that culture in their organisation (the figure for service provider organisations was 76.2%). It is important to evaluate the development of the anti-fraud culture to determine if work to achieve this effect is being successful.

3.34 Questions 16 - Does the organisation attempt to create a strong deterrent effect?

3.35 88.6% of insurance companies indicated that they did seek to create a strong deterrent effect (the figure for service provider organisations was 95.2%). Of course, if fraud can be deterred then it does not need to be detected or investigated. However, Question 17 addressed the question of what is actually done.

3.36 Question 17 - Does the organisation seek to publicise...

3.37 Deterrence has been shown to arise from potential fraudsters’ perceptions about the risks they face. This is not just the risk of a potential heavy sanction (if the chance of detection and effective investigation is minimal then this is unlikely to be a consideration). There are several different issues which affect these perceptions. This question evaluates the extent to which different sectors understand and seek to highlight these issues. The answers to Question 17 were as follows:

- 54.3% of insurance companies indicated that they sought to publicise the hostility of the honest majority to fraud and corruption
- 60.0% sought to publicise the effectiveness of preventative arrangements
- 51.4% sought to publicise the sophistication of arrangements to detect fraud (possibly because the arrangements were not that sophisticated – see later questions)
3 // detailed analysis

- 51.4% sought to publicise the effectiveness of those who would investigate fraud (this probably reflects the answers to Question 9 about professional training and accreditation)
- 54.3% sought to publicise the likelihood of sanctions being applied which was the highest percentage answer
- 51.4% sought to publicise the likelihood of losses being recovered

3.38 Question 18 - Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?

3.39 Another aspect of pre-empting fraud is work to design weaknesses out of processes and systems which might otherwise have allowed fraud to take place. 94.3% of insurance companies indicated that they did this (the figure for service provider organisations was 90.5%), which compares with 81% of private sector companies generally.

3.40 Question 19 - Where an investigation into fraud takes place do reports cover identified policy and systems weaknesses

3.41 Learning from failure is an important element of any strategy. Formally building this into fraud investigations is therefore essential. 77.1% of insurance companies indicated that they did this (the figure for service provider organisations was 71.4%), which compares with 85% of private sector companies generally.

3.42 Question 20 - Does the organisation have a formal or informal policy setting out how it tries to detect possible fraud?

3.43 94.3% of insurance companies indicated that they proactively sought to detect fraud (the figure for service provider organisations was 95.2%) – rather than waiting for it to happen and then reacting to it. This approach helps to shorten the length of time that a fraud continues and to reduce the related losses. The rating is better than the private sector generally.

3.44 Question 21 - Are analytical intelligence techniques used to examine data and identify potential fraud and corruption?

3.45 Only 54.3% of insurance companies indicated that they used analytical intelligence techniques to find possible fraud (the figure for service provider organisations was 90.5%). These different figures probably reflect the outsourcing of data analytics work by some companies.
3.46 Question 22 - Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?

3.47 100% of insurance companies answered Yes to this important question (the figure for service provider organisations was 90.5%), which is an excellent result. The comparable figure for private sector companies generally was 92%.

3.48 Question 23 - Is the organisation’s investigation work carried out in accordance with clear guidance?

3.49 Once reported, then a prompt investigation conforming to professional standards and legal requirements should proceed. 91.4% of insurance companies indicated that they had clear guidance about how this should happen (the figure for service provider organisations was 100%). Investigating fraud can be complex and it is necessary to comply with various legal requirements. Some risks are posed which can lead to the potential failure of the investigation. Having clear guidance in place on how an investigation should be undertaken is essential.

3.50 Question 24 - Do those undertaking investigations have the necessary powers, both in law, where necessary, and within the organisation?

3.51 This is a difficult job and it is important to have the necessary powers to be effective. 68.6% of insurance companies indicated that their investigators had the necessary powers (the figure for service provider organisations was 71.4%). This compares with 85% of private sector companies generally.

3.52 Question 25 - Does the organisation have a clear and consistent policy on the application of sanctions where fraud or corruption is proven to be present?

3.53 Applying proportionate sanctions consistently and effectively to those who are found to have undertaken fraud, is another important element of a resilient approach. 68.6% of insurance companies indicated that they had such a policy in place (the figure for service provider organisations was 81%).
3.54  Question 26 - Are all possible sanctions – disciplinary/ regulatory, civil and criminal – considered?

3.55  91.4% of insurance companies answered Yes to this question (the figure for service provider organisations was 81%). However, if we had asked ‘regularly used’ rather than ‘considered’ we suspect the results may have been very different. It is very easy to ‘consider’ applying sanctions, but actually seeking to do so is a different matter.

3.56  Question 27 - Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?

3.57  In addition to applying sanctions, recovering losses is also very important. After all, the most pernicious aspect of fraud is that it diverts resources from where they are intended. 62.9% of insurance companies had such policies in place (the figure for service provider organisations was 90.5%). This is worse than the private sector generally (65%) but better than the charity sector (42%).

3.58  Question 28 - Does the organisation use the criminal and civil law to the full in recovering losses?

3.59  The criminal law concerning fraud is primarily intended to be used to punish individual fraudsters while the civil law is used to recover losses. The most effective companies benefit from combining both in parallel. 57.1% of insurance companies answered Yes to this question (the figure for service provider organisations was 71.4%), which compares to a figure of 62% for the private sector generally.

Defining success and delivering results

3.60  Question 29 - Does the organisation regularly review the effectiveness of its counter fraud work against agreed performance indicators?

3.61  Reviewing and measuring the effectiveness of counter fraud work is also important. It is necessary to develop relevant performance indicators and consider if they have been met. 80% of insurance companies (the figure for service provider organisations was 90.5%) indicated that they did performance manage counter fraud work.

Counter fraud work performance managed?

- Yes: 80.0%
- No: 20.0%
overall analysis
4.1 The answers to the questions which have been reviewed above were weighted by the authors of this Report to allow comparisons across the different sectors. This was done by applying professional judgement derived from many years specialist experience of both undertaking and studying such work.

4.2 The process is inevitably, to some extent, subjective, but the alternative of not weighting answers is worse and would have ignored the different relative importance of individual aspects of work to counter fraud. The weightings are listed in Appendix 1.

4.3 Overall, the insurance sector achieved a mean score of 36.9 out of a possible score of 50. 70% of the responses from the 35 insurance companies who responded were between 28.5 and 45.5.

4.4 One thing that this report does not do is to differentiate between claims fraud and fraud at a corporate level (such as employee fraud or supplier fraud) and the industry may wish to consider whether its approach to countering fraud in the claims arena is replicated in defending itself against other forms of fraudulent activity. Much of an insurer’s counter fraud activities are designed to prevent itself from fraudulent or speculative claims, particularly within the motor and household fields - the authors would question whether a similar level of activity is present within other lines and at a corporate level.

In which areas did the insurance sector perform best?

4.5 Insurance companies performed best in the following areas:

- 100% had arrangements in place for the prompt reporting of suspected fraud
- 94.3% had a programme of work in place to develop a real anti-fraud culture
- 94.3% sought to design fraud out of new policies and systems
- 94.3% had a formal or informal policy in place setting out how they try to detect possible fraud
- 91.4% had adopted a written counter fraud strategy

In which areas did the insurance sector perform worst?

4.6 Insurances sector companies performed worst in the following areas:

- Only 25.7% had ensured that those working to counter fraud had received specialist professional training and accreditation
- Only just over half (54.7%) deployed analytical intelligence techniques
- Only 57.1% used the criminal and civil law to the full in recovering losses
- Only 62.9% - less than two-thirds - had a clear policy on the recovery of losses
- Only 62.9% sought to evaluate the progress of work to develop a real anti-fraud culture
5 // conclusion
5.1 This Report provides new information which was not previously available about where insurance companies are well or badly protected against fraud. No individual companies are identified but the analysis does provide a ‘map’ of the insurance sector fraud landscape and should inform the work of responsible companies.

5.2 It shows that there is still progress to be made as we seek to help the UK’s insurance sector to be properly protected against fraud, to avoid the unnecessary cost of fraud, and to boost its profitability accordingly.

5.3 In particular progress needs to be made in two areas. The first is to ensure a greater proportion of insurance companies have professionally trained and accredited Counter Fraud Specialists working for them; the second is for companies to better understand - individually, rather than just across the sector as a whole - how fraud resilience they are and how they compare to other companies. PKF and the CCFS's free, online Fraud Resilience Self-Assessment Tool, is a first way to do this. It is available at www.pkftools.co.uk/insurancefraud.

5.4 In the view of the authors of this Report, this should contribute to an Agenda for further progress in the years to come.
appendix 1
weightings
The following weightings were applied, as described above:

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about
the authors
// about the authors

**Jim Gee** is Director of Counter Fraud Services at PKF (UK) LLP, the leading accountancy and business services firm and Chair of the Centre for Counter Fraud Studies at University of Portsmouth. During more than 25 years as a counter fraud specialist, he led the team which cleaned up one of the most corrupt local authorities in the UK – London Borough of Lambeth – in the late 1990s; he advised the House of Commons Social Security Select Committee on fraud and Rt. Hon. Frank Field MP during his time as Minister of State for Welfare Reform; between 1998 and 2006 he was Director of Counter Fraud Services for the Department of Health and CEO of the NHS Counter Fraud Service, achieving reductions in losses of up to 60% and financial benefits equivalent to a 12:1 return on the costs of the work. Between 2004 and 2006 he was the founding Director-General of the European Healthcare Fraud and Corruption Network; and he has since worked as a senior advisor to the UK Attorney-General on the UK Government’s Fraud Review.

He has also worked with a range of private sector companies and charities as well as delivering counter fraud and regulatory services to companies both in this country and internationally. His work has taken him to more than 30 countries to counter fraud and he recently completed work advising the Chinese Government about how to measure, pre-empt and reduce the financial cost of fraud.

**Dr Mark Button** is a Reader at University of Portsmouth and Director of the Centre for Counter Fraud Studies. Mark Button is a Reader in Criminology and Associate Head Curriculum at the Institute of Criminal Justice Studies, University of Portsmouth. He has also recently founded the Centre for Counter Fraud Studies of which he is Director. He has written extensively on counter fraud and private policing issues, publishing many articles, chapters and completing four books with one forthcoming: Private Security (published by Perpetuity Press and co-authored with the Rt. Hon. Bruce George MP), Private Policing (published by Willan), Security Officers and Policing (Published by Ashgate), Doing Security (Published by Palgrave), and Understanding Fraud: Issues in White Collar Crime (to be published by Palgrave in early 2010 and co-authored).

He is also a Director of the Security Institute, and Chairs its Academic Board, and a member of the editorial advisory board of ‘Security Journal’. Mark founded the BSc (Hons) in Risk and Security Management, the BSc (Hons) in Counter Fraud and Criminal Justice Studies and the MSc in Counter Fraud and Counter Corruption Studies at Portsmouth University and is Head of Secretariat of the Counter Fraud Professional Accreditation Board (CFPAB). Before joining the University of Portsmouth he worked as a Research Assistant to the Rt. Hon. Bruce George MP specialising in policing, security and home affairs issues. He completed his undergraduate studies at the University of Exeter, his Masters at the University of Warwick and his Doctorate at the London School of Economics. Mark has recently been working on a research project funded by the National Fraud Authority and ACPO looking at victims of fraud.

**Graham Brooks** is Course Leader for the Counter Fraud and Corruption MSc. at the University of Portsmouth. He was previously the Course Leader for the Counter Fraud and Criminal Justice Studies BA from June 2007 to March 2009, and Head of Secretariat for the Counter Fraud Professional Accreditation Board from September 2007 to March 2009. He is also a member of the Centre for Counter Fraud Studies at the University of Portsmouth. Graham has published papers on many aspects of fraud and corruption. However, he has a special interest in fraud and corruption in sport and the effect gambling has on the integrity of all sports. A book on Fraud and Corruption in Sport, (published by Palgrave in 2012) is forthcoming which addresses these issues. Graham completed his undergraduate degree at Leeds Metropolitan University in Social Policy, and has a MPhil in Criminology from Cambridge University.
Fraud is a problem that undermines the stability and financial health of mining companies from across the world. It is not a victimless crime, but one which undermines their profitability and capacity for a beneficial impact locally.

Global research shows that fraud costs organisations an average of 5.7% of expenditure but also that this figure varies considerably according to how resilient to fraud they are.

PKF (UK) LLP and the Centre for Counter Fraud Studies (CCFS) at University of Portsmouth have jointly undertaken the most extensive and most comprehensive research yet in this area and now have the world’s largest databases concerning measured fraud losses and fraud resilience.

One affects the other - the more resilient to fraud that a company is the lower its losses will be. By increasing levels of fraud resilience losses have been cut by up to 40% within 12 months.

by combining specialist experience and academic rigour…

PKF and the CCFS represent a unique combination of specialist hands on experience, academic knowledge and rigour and mining sector experience. Together we offer a confidential Fraud Resilience Review service which rates and benchmarks mining companies operations against both best practice and their peers. This service reviews counter fraud arrangements against 29 measures of resilience and 170 different criteria derived from the best professional standards. We have delivered this service on-site in different countries around the world.

The review covers

• the extent to which an organisation understands the nature and cost of fraud to it as a business problem;
• the extent to which it has an effective strategy in place which is tailored to address this problem;
• the extent to which organisations maintain a counter fraud structure which can implement this strategy successfully;
• the extent to which the structure efficiently undertakes a range of pre-emptive and reactive action; and
• the extent to which results are properly measured, identified and delivered.

…we can provide the answers

We let the data speak for itself to identify weaknesses in counter fraud arrangements. Our work results in the provision of a clear and concise Report detailing our findings with recommendations for improvements based on a wealth of experience drawn from more that 30 countries around the world.

find out more

The cost of the Fraud Resilience Review service varies according to the nature, size and complexity of the company concerned. However, it is designed to be a cost-effective response to fraud which provides information and evidence to allow further decisions to be made.

To find out more please ring 020 7065 0557 or email jim.gee@uk.pkf.com
PKF (UK) LLP is one of the UK’s leading firms of accountants and business advisers and specialises in advising the management of developing private and public businesses. We pride ourselves on creating and sustaining supportive relationships where objective and timely advice enables our clients to thrive and develop.

Our clients benefit from an integrated approach based on understanding the key issues facing small and medium-sized businesses. This enables us to deliver the appropriate support to our clients, and allows them to focus on building the value of their businesses.

The principal services we provide include assurance and advisory; consultancy; corporate finance; corporate recovery and insolvency; forensic and taxation. We also offer financial services through our FSA authorised company, PKF Financial Planning Limited.

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- Hotel consultancy
- Healthcare
- Mining & resource
- Not-for-profit
- Pensions
- Professional practices
- Public sector
- Real estate & construction

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PKF (UK) LLP is a member firm of the PKF International Limited network of legally independent firms. Our membership means that we can, through collaboration with other member firms, offer sound advice on a range of international issues. Worldwide, the member firms have around 21,400 people working out of 440 offices in 125 countries, and an overall turnover of approximately US$2.6 billion.