Tackling first-party fraud

How industry and government can reduce the cost to consumers and businesses

A WPI Economics Report for Cifas

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About WPI Economics

WPI Economics is a specialist economics and public policy consultancy. We provide a range of public, private and charitable clients with research, modelling and advice to influence and deliver better outcomes through improved public policy design and delivery.

About Cifas

Cifas is an organisation bringing together members working in a number of industries in the fight against fraud. Set up initially in 1988 by seven retail credit companies, its membership has now grown to over 400 members from various sectors such as banking, retail, insurance, mortgages and credit card providers. The aim – to share fraud intelligence and details of fraudulent conduct from both the public and private sector on the National Fraud Database, the only cross sector data sharing platform in the UK, to help prevent further fraud. Throughout the UK, our experts and services help protect individuals and organisations from the growing and increasingly sophisticated threat of fraud and financial crime. Since 1988, Cifas has helped its members and customers protect themselves from billions of pounds worth of fraud losses.

About the polling in this report

ComRes interviewed 2,070 British adults online between the 27th and 28th of March 2019. Data were weighted to be representative of GB adults by age, gender, region and socio-economic grade. ComRes is a member of the British Polling Council and abides by its rules.

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Executive summary

Fraud is a major issue for businesses, the public sector, and charities. In 2016, all types of fraud combined were estimated to cost the UK £193bn, with three quarters of this lost from the private sector.[i]

This report focuses on a particular sub-set of frauds, first-party fraud: those that are committed by customers (i.e. not by employees or people using stolen or fake identities). As a conservative estimate, this fraud costs billions of pounds a year in direct losses and monitoring, detection, and prevention.

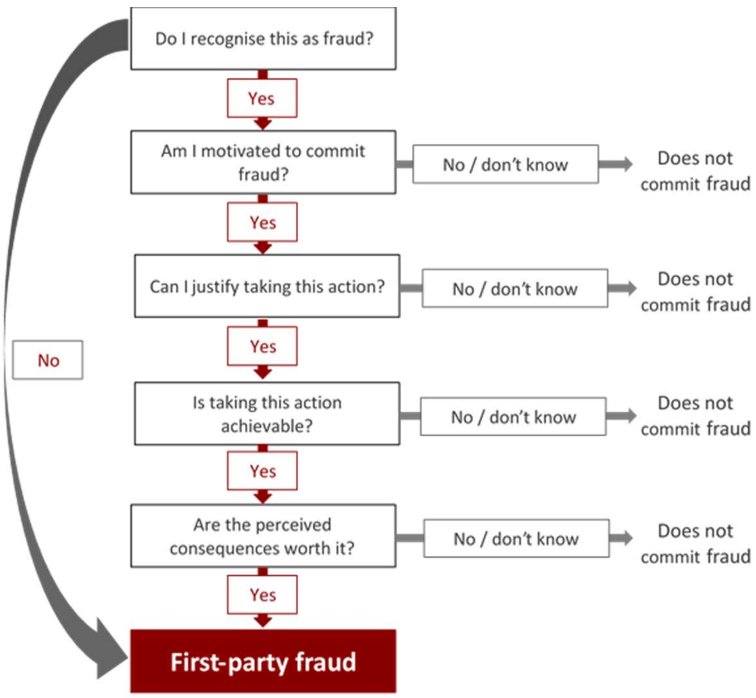
It also occurs across society. Original polling commissioned for this report asked respondents about ten types of fraud and found that one in seven (14%) British adults admitted to committing one or more types of first-party fraud. Perhaps even more concerning, there were some types of fraud that more than one in five Britons felt were 'reasonable' – suggesting a significant pool of people who may be willing to commit fraud in the future.

Our conversations with experts in academia and on the frontline of fraud prevention highlighted that there is no one type of fraudster, nor one journey to fraud. Some people will carefully pre-plan a fraud, others will simply respond to an opportunity, or even 'chance their arm'. The extent to which fraud is committed by repeat or occasional offenders is also likely to vary significantly between types of fraud.

14% of British adults admit to committing one or more types of first-party fraud

All of this makes responding to the threat of first-party fraud difficult. To help support industry and policymakers to identify solutions, we developed a high-level 'consumer journey' to first-party fraud that identifies a number of points at which someone could be 'pushed off' that journey (Figure 1).

Figure 1: Stylised journey to committing first-party fraud



Source: WPI Economics

There is an important focus in this framework on prevention. While it may not be possible to eliminate first-party fraud entirely, reducing its incidence and impact is a crucial goal. Where possible, preventing someone from attempting to commit fraud (whether knowingly or inadvertently) is more cost-effective than detecting and investigating that fraud. A primary focus on prevention also frees up vital time and resources to focus on the 'hard core' of committed (and in some cases professional) fraudsters, resulting in a more effective and efficient allocation of investigative resource.

Using this framework, we have identified four main packages of work that industry and government can take forward:

- A public awareness campaign to improve understanding of what fraud is and its consequences;
- Changes to company processes at the firm or industry level to make fraud harder to commit;
- Regulatory change to reduce incentives for fraudsters and those who recruit people to be fraudsters; and
- Enforcement activity to tackle those who are not dissuaded from fraud by the above.

The details of how these packages apply to the wide range of sectors that are vulnerable to first-party fraud will vary, but these packages will enable industry, government, and law enforcement to develop a multi-pronged strategy for each sector. Tackling each stage of the consumer journey at least once, and some multiple times, provides the greatest possible likelihood of pushing the greatest number of people off a journey that is not just harmful to the businesses they defraud, but to both themselves and wider society.

Figure 2: Matrix of potential interventions against first-party fraud

	Stage of journey targeted				
Action	Knowledge of fraud	Motivations	Justifications	Achievability	Consequences
Public awareness campaign					
Changes to company processes					
Regulatory change		(only for Claims Management Company, CMC)			
Enforcement activity		(only where mule herder is involved)			

Grey boxes highlight the stages of the journey that could be affected by each intervention area
Source: WPI Economics

It is also clear that the lack of consistent and combined data on incidences of fraud, either within or across sectors, hampers efforts to raise the political profile of first-party fraud and to co-ordinate an effective response. It is therefore important that industries which are most affected by this issue, and relevant trade associations (including Cifas, the ABI, the British Retail Consortium, and UK Finance) work together to develop and regularly publish estimates of the scale and impact of different types of first-party fraud. While the nature of fraud, and genuine difficulties in identification at the margins, makes a precise calculation impossible, there is far more that can be done to demonstrate the need to tackle first-party fraud.

Introduction

What is first-party fraud?

Many companies have to deal with the risk of fraud, including internal fraud from employees, criminals perpetrating money mule scams, or fraud committed against their customers that might damage the company financially or reputationally, such as identity theft.

Within this range of risks, 'first-party fraud' represents a particular set of cases. It can occur across sectors and takes many different forms, but central to each is that it is perpetrated by an individual who is outside the defrauded organisation and who is not assuming someone else's identity. Essentially, it is fraud committed by consumers, rather than fraud committed by employees or identity thieves. Some of the key types of first-party fraud are set out below:

Figure 3: Examples of first-party fraud

Shorthand in charts	Scenario used in polling
Deshopping	Someone buys a piece of clothing, wears it once, and then returns it, claiming it doesn't fit.
Fronting	A teenage driver needs car insurance for their own car. To save money, their parent takes out the policy in their own name and puts the teenager as a named driver, not the policyholder.
Single Person Discount	Someone's partner moves in with them, but they don't inform their local authority. As a result, they continue to receive the Single Person Discount on their Council Tax.
Claimed non-delivery	Someone buys an item online. It arrives, but they claim it hasn't and get a refund.
Exaggerated insurance	Someone's house is burgled. They make an insurance claim for more than the value of the stolen items.
Insurance after accident	Someone breaks their phone. The next day they take out an insurance contract and claim for accidental damage.
Mobile phone fraud	Someone agrees to take out a mobile phone contract, and then gives the handset to someone else. They then stop paying the contract.
Mortgage application	Someone adds £10,000 to their salary on their mortgage application.
Money mule	Someone agrees to receive a payment of £500 to their bank account from a third party and transfer £400 to another account. They are allowed to keep the remaining £100 as 'payment' for doing so.
Not declared CCJ	Someone makes an application for credit (e.g. car finance) but does not disclose that three years ago they received a County Court Judgement (CCJ) for unpaid debt.

The size of the problem

There is no ‘headline figure’ for the cost of first-party fraud to UK companies. Much of the available data on the cost of fraud does not distinguish between first-party fraud and other types of fraud, such as those that use false or stolen identities. There are also challenges to accurately estimating the scale of first-party fraud in the UK. For example, detection of fraud depends on the awareness of different types of fraud and any estimate of *un*detected fraud is subject to a high degree of uncertainty. We also understand that there is no standard classification of first-party fraud, and that in some cases companies do not record it as a distinct category even in internal reporting.

However, the available evidence, while incomplete, clearly demonstrates that first-party fraud is a significant issue:

- The Association of British Insurers (ABI) found insurers had detected 125,000 fraudulent insurance claims (i.e. first-party fraud) in 2016. These detected claims were estimated to be worth £1.3bn, with a similar amount estimated to have gone undetected.[ii]
- The ABI figures only cover insurance claims and the cost of first-party fraud is not only from the direct financial cost of successful frauds, but also includes the costs associated with monitoring, detecting, investigating and prosecuting frauds. Insurance companies alone invest £200m a year in identifying fraud.[iii]
- Across all types of fraud Cifas’ members report having prevented £1.4 billion of losses by using its database. Its database also reports more than 100,000 cases of first-party fraud in 2018 alone.[iv]

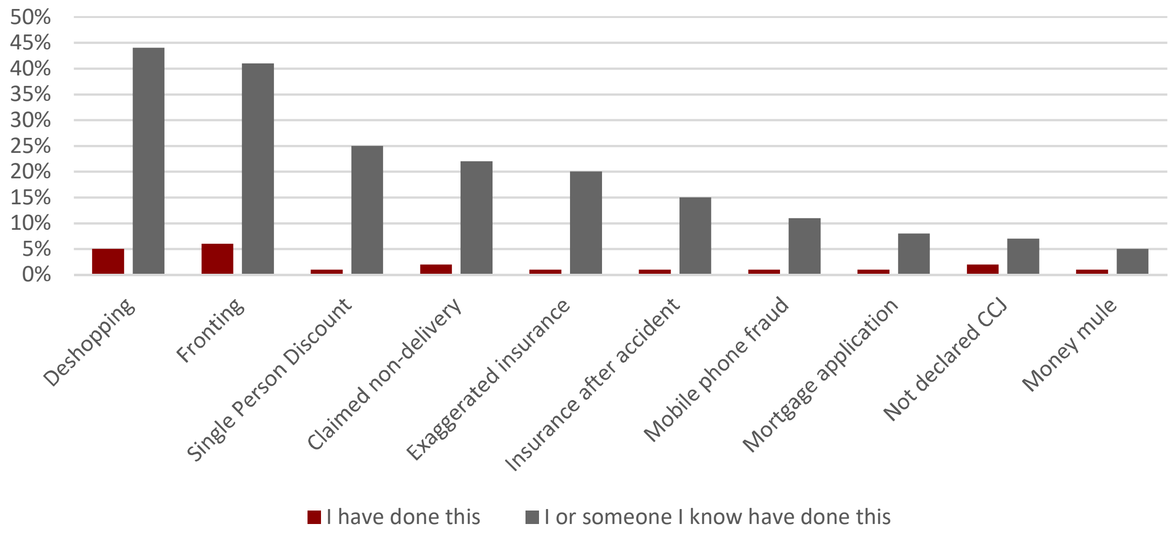
For all of these reasons, publicly-available estimates of the cost of first-party fraud are likely to be significant underestimates of its true cost. But it is clear that even a conservative estimate of the total cost of first-party fraud to the UK runs into the billions of pounds.

In order to better understand the likely scale of the first-party fraud, new nationally-representative polling from ComRes on behalf of WPI Economics was commissioned for this research. Overall, the results of this confirm that first-party fraud is a significant problem in the UK. We provided respondents with ten example scenarios and asked them whether they, or someone they know, had committed certain types of fraud – as well as whether they considered each scenario reasonable.

Headline figures: prevalence

Altogether, one in seven (14%) respondents admitted committing one or more types of fraud, while two in three (68%) either have or know someone who has. Figure 4 shows that deshopping and fronting are by far the most prevalent types of fraud, although for most types tested, at least one in ten Britons are aware of someone who has committed them.

Figure 4: Prevalence of types of first-party fraud

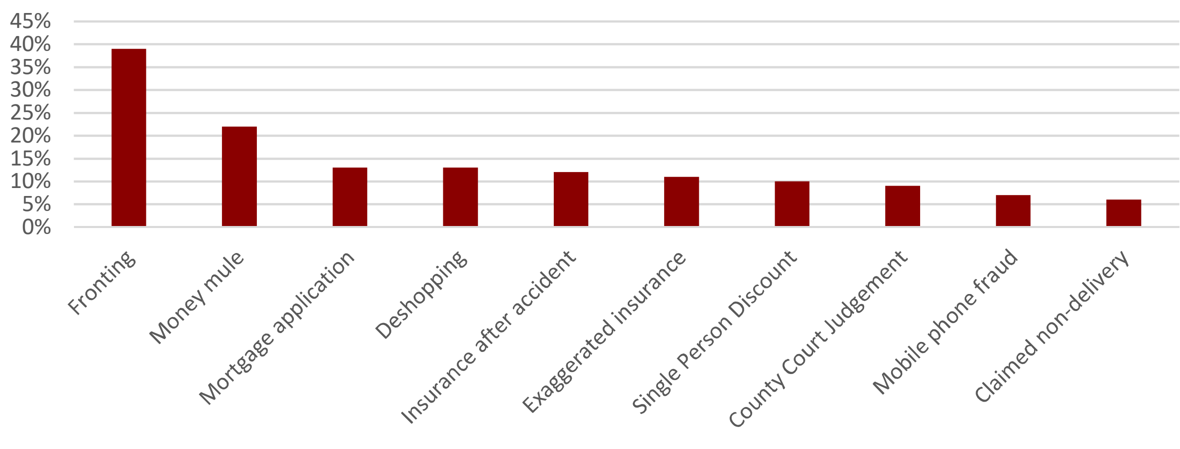


Source: ComRes on behalf of WPI Economics
Q1. Below are some examples of common scenarios people may find themselves in. Which of the following statements describes your experience of each? Base: British adults (n=2,070)

Headline figures: reasonableness

A key factor in whether someone is likely to commit first-party fraud is the extent to which they think the activity is 'reasonable'. We therefore asked a representative sample of British adults about their views of the reasonableness of the same scenarios.

Figure 5: Reasonableness of types of first-party fraud



Source: ComRes on behalf of WPI Economics
Q2. To what extent do you think the following scenarios are reasonable or unreasonable? Base: British adults (n=2,070)

From this data it is clear that fronting is, by some way, the type of first-party fraud most likely to be considered reasonable in our set. Interestingly, the least common scenario (money muling) is seen as the next most reasonable - and falsely claiming an item has not been delivered is least likely to be considered reasonable, despite it being one of the types of fraud that Britons are more commonly aware of.

First-party fraud and demographics

The results from our polling also highlight demographic differences between British adults in terms of their attitudes towards, and experience of, first-party fraud. What stands out is that different types of fraud, and beliefs in their reasonableness, are found across the country and population. This highlights the complex nature of the challenge facing sectors affected by first-party fraud.

Age

With the exception of the youngest age group (those aged 18-24, who may lack exposure to opportunities for first-party fraud), prevalence and reasonableness declines by age. However, fronting and deshopping were by far the most prevalent across age groups, and fronting was most likely to be seen as reasonable, showing the particular challenge facing these two types of fraud.

Table 1: Results on prevalence and reasonableness by age

Age range	Top three prevalent (I / someone I know have done this)	Top three reasonable	I have done any of the scenarios
18-24	Deshopping 49% Fronting 48% Claimed non-delivery 29%	Fronting 54% Insurance after accident 29% Money mule 26%	17%
25-34	Deshopping 51% Fronting 48% Claimed non-delivery 35%	Fronting 48% Money mule 28% Insurance after accident 21%	23%
35-44	Deshopping 47% Fronting 42% Claimed non-delivery / Single Person Discount 27%	Fronting 42% Money mule 31% Mortgage application 19%	18%
45-54	Deshopping 45% Fronting 39% Single Person Discount 30%	Fronting 37% Money mule 23% Mortgage 18%	14%
55-64	Deshopping 40% Fronting 37% Single Person Discount 26%	Fronting 34% Money mule 18% Mortgage application 8%	10%
65+	Deshopping 37% Fronting 35% Exaggerating insurance 19%	Fronting 29% Money mule 10% Mortgage application 7%	6%

Source: ComRes on behalf of WPI Economics
Base: British adults (n=2070); 18-24 (n=215); 25-34 (n=367); 35-44 (n=348); 45-54 (n=317); 55-64 (n=302); 65+ (n=521)

Sex

There were relatively few differences between the results for men and women, although men were slightly more likely to see first-party frauds such as mortgage fraud, deshopping, exaggerating insurance, and wrongly claiming a Single Person Discount on Council Tax as reasonable.

Table 2: Results on prevalence and reasonableness by sex

Sex	Top three prevalent (I / someone I know have done this)	Top three reasonable	I have done any of the scenarios
Male	Fronting 43% Deshopping 43% Single Person Discount 24%	Fronting 39% Money mule 22% Mortgage application / deshopping 15%	14%
Female	Deshopping 46% Fronting 39% Single Person Discount 26%	Fronting 40% Money mule 21% Insurance after accident 13%	14%

Source: ComRes on behalf of WPI Economics
Base: British adults (n=2070); Men (n=1078); Women (n=992)

Age and sex combined

We also looked at survey responses by age and sex combined, which revealed some notable differences between groups (Table 3). For example, a quarter (26%) of men aged 18-24 see deshopping as reasonable – compared to just 3% of men aged 65 and over. These insights will be valuable in more finely targeting influencing activity at the most relevant demographic groups.

Table 3: Results on prevalence and reasonableness by age and sex combined

Scenario	Demographic in which most prevalent (I / someone I know have done this)	Demographic in which least prevalent (I / someone I know have done this)	Demographic in which most likely to be considered reasonable	Demographic in which least likely to be considered reasonable
Deshopping	Female 25-34 (55%)	Male 65+ (33%)	Male 18-24 (26%)	Male 65+ (3%)
Fronting	Male 25-34 (53%)	Female 55-64 (31%)	Female 18-24 (61%)	Male / Female 65+ (29%)
Single Person Discount	Female 25-34 (37%)	Male 65+ (14%)	Male 18-24 / 25-34 (24%)	Female 65+ (2%)
Claimed non-delivery	Female 25-34 (38%)	Male 65+ (8%)	Male 25-34 (15%)	Male 65+ (<1%)
Exaggerated insurance	Male 55-64 (26%)	Female 18-24 / 25-34 (15%)	Male 18-24 (27%)	Female 65+ (2%)
Insurance after accident	Male 25-34 (30%)	Female 65+ (1%)	Male 18-24 (32%)	Male 65+ (<1%)
Mobile phone fraud	Male 25-34 (25%)	Female 65+ (2%)	Male 25-34 (21%)	Male 65+ (<1%)
Mortgage application	Male 25-34 (19%)	Female 55-64 (2%)	Male 45-54 (21%)	Female 55-64 (5%)
Not declared CCJ	Male 25-34 (13%)	Female 55-64 / 65+, Male 55-64 (3%)	Male 35-44 (14%)	Female 55-64 / 65+, Male 65+ (5%)
Money mule	Male 25-34 (18%)	Female 65+ (<1%)	Male 35-44 (33%)	Female 65+ (8%)

Source: ComRes on behalf of WPI Economics

Base: British adults (n=2070); Men 18-24 (n=92); Women 18-24 (n=123); Men 25-34 (n=163); Women 25-34 (n=204); Men 35-44 (n=197); Women 35-44 (n=151); Men 45-54 (n=185); Women 45-54 (n=132); Men 55-64 (n=175); Women 55-64 (n=127); Men 65+ (n=266); Women 65+ (n=255).

Socio-economic groups

While there was little difference between social groups regarding likelihood of having committed a fraud themselves, social group DE were less likely to know someone who had done so. This difference was particularly pronounced regarding fronting, where 31% of DE respondents had or knew someone who had done so, compared to 41% of British adults overall.

Table 4: Results on prevalence and reasonableness by socio-economic group

Social group	Definition	Top three prevalent (I / someone I know have done this)	Top three reasonable	I have done any of the scenarios
AB	Higher & intermediate managerial, administrative, professional occupations	Fronting 45% Deshopping 45% Single Person Discount 23%	Fronting 43% Money mule 20% Deshopping 14%	15%
C1	Supervisory, clerical & junior managerial, administrative, professional occupations	Deshopping 47% Fronting 41% Single Person Discount 25%	Fronting 38% Money mule 20% Deshopping 14%	13%
C2	Skilled manual occupations	Fronting 46% Deshopping 46% Single Person Discount 31%	Fronting 42% Money mule 25% Mortgage 17%	16%
DE	Semi-skilled & unskilled manual occupations, Unemployed and lowest grade occupations	Deshopping 40% Fronting 31% Single Person Discount 24%	Fronting 35% Money mule 23% Deshopping 11%	14%

Source: ComRes on behalf of WPI Economics
Base: British adults (n=2070); AB (n=576); C1 (n=613); C2 (n=351); DE (n=530).

First-party fraud and location

Fronting and deshopping were the most prevalent types of fraud in all regions in Great Britain, although there were some regional differences. In both Scotland (50%) and the North East (53%), at least half of respondents either had or knew someone who had engaged in deshopping, whereas this was true of fewer than two in five in Wales (37%) and 44% of British adults overall.

We also found some regional variation in views on the reasonableness of different types of fraud. For example, 44% of those living in Scotland or in the South East of England felt fronting was reasonable, a figure which fell to just 32% in Wales. And more than one in four (28%) of adults in London thought the money mule scenario was reasonable, compared to 17% in Scotland, Wales, and the North West. Adults in London were also twice as likely to see falsely claiming a Single Person Discount on Council Tax as reasonable (14%) as respondents in the East Midlands, West Midlands, or South East (7% in each).

Table 5: Results on prevalence and reasonableness by region and country

Region	Top three prevalent (I / someone I know have done this)	Top three reasonable	I have done <u>any</u> of the scenarios
North East	Deshopping: 53% Fronting: 39% Exaggerated insurance: 25%	Fronting: 36% Money mule: 18% Single Person Discount: 13%	15%
North West	Deshopping: 47% Fronting: 44% Single Person Discount: 30%	Fronting: 36% Money mule: 17% Deshopping: 15%	15%
Yorkshire and Humberside	Deshopping: 46% Fronting: 45% Single Person Discount: 25%	Fronting: 43% Money mule: 19% Deshopping: 18%	17%
West Midlands	Fronting: 43% Deshopping: 41% Single Person Discount: 24%	Fronting: 36% Money mule: 23% Mortgage application: 16%	12%
East Midlands	Deshopping: 40% Fronting: 34% Single Person Discount: 24%	Fronting: 37% Money mule: 26% County Court Judgement: 12%	10%
East of England	Fronting: 42% Deshopping: 41% Single Person Discount: 22%	Fronting: 42% Money mule: 19% Exaggerated insurance: 13%	15%
London	Deshopping: 46% Fronting: 37% Claims non-delivery: 25%	Fronting: 37% Money mule: 28% Insurance after accident: 16%	18%
South East	Deshopping: 48% Fronting: 41% Claims non-delivery 26%	Fronting: 44% Money mule: 25% Mortgage application: 17%	10%
South West	Fronting: 42% Deshopping: 37% Claims non-delivery: 20%	Fronting: 41% Money mule: 20% Mortgage application / deshopping: 11%	14%

Source: ComRes on behalf of WPI Economics
Base: British adults (n=2070); North East (n=85); North West (n=236); Yorkshire and Humberside (n=167); West Midlands (n=156); East Midlands (n=163); East of England (n=207); London (n=250); South East (n=315); South West (n=206).

Table 5: Results on prevalence and reasonableness by region and country (continued)

Country	Top three prevalent (I / someone I know have done this)	Top three reasonable	I have done <u>any</u> of the scenarios
Scotland	Deshopping: 50% Fronting:41% Single Person Discount: 33%	Fronting: 44% Money mule: 17% Deshopping: 13%	16%
Wales	Fronting: 38% Deshopping: 37% Single Person Discount: 31%	Fronting: 32% Money mule: 17% Mortgage application / insurance after accident: 15%	14%

Source: ComRes on behalf of WPI Economics
Base: British adults (n=2070); Scotland (n=186); Wales (n=99).

The importance of prevention

All sectors that are affected by first-party fraud invest considerable resource into detecting and prosecuting these frauds. This can involve detecting fraudulent applications or claims before they are accepted (i.e. preventing an attempted fraud from being committed) or identifying and punishing a fraud after it is committed.

First-party fraud also poses particular challenges for fraud detection. One reason for this is that the activities that constitute first-party fraud are also activities that legitimate customers undertake (making an insurance claim, returning a product, claiming a discount etc.). So, the question is one of *distinguishing* between legitimate and illegitimate activity. This makes any identification of fraud reliant on judgement and carries a risk that a mistake is made, and someone is wrongly accused. In turn this can harm the trust between the accused and the organisation if the suspicion later proves to be unfounded (however legitimate the *prima facie* case that led to investigation may have been).

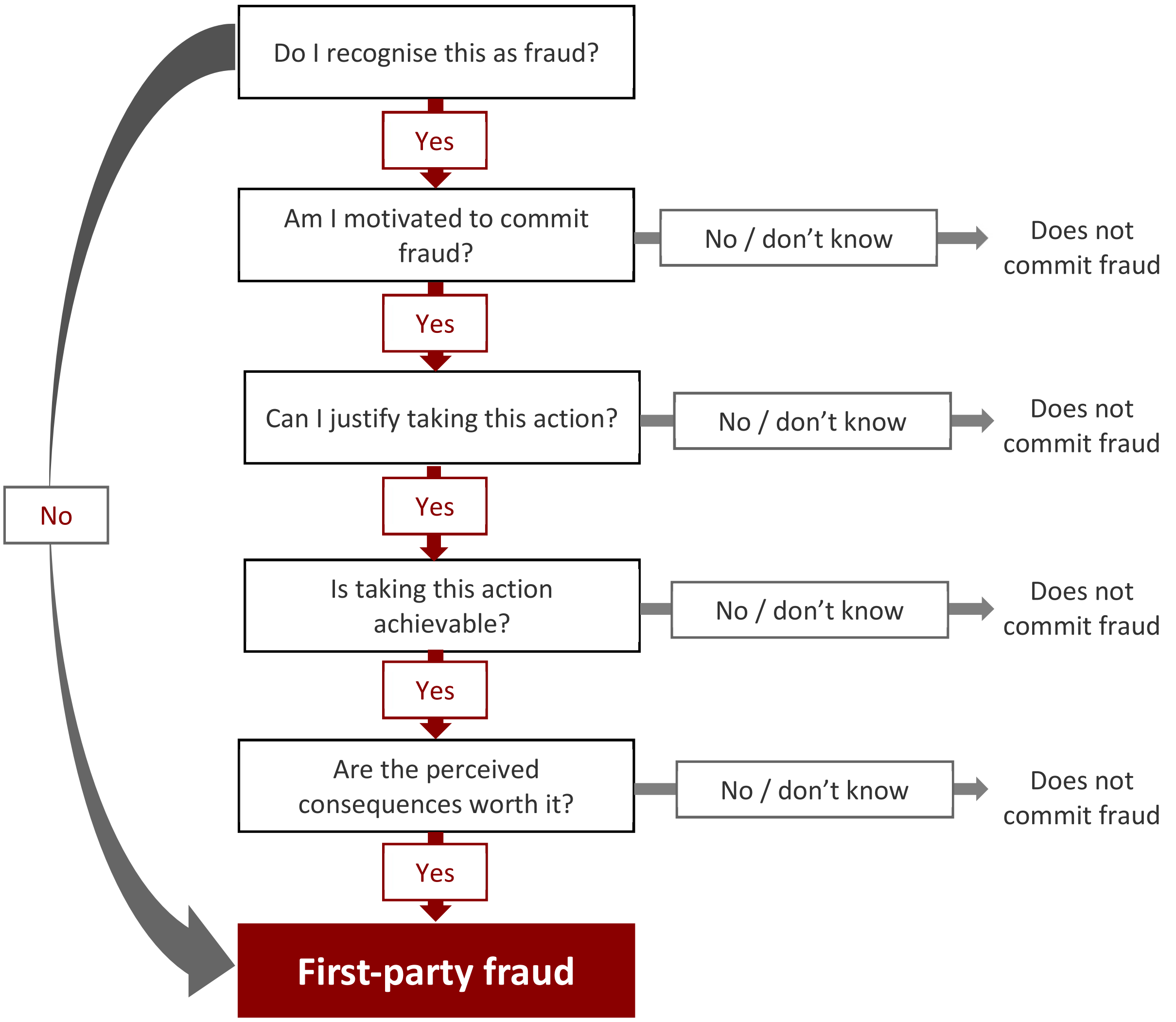
Proactive detection and investigation of suspected first-party fraud is likely to be necessary to some degree, as there will always be people willing to attempt to commit fraud. But reducing the likelihood of people even getting to the stage where they *attempt* a fraud will reduce the costs to business and non-fraudulent consumers most effectively – and also allows detection and prosecution activity to be better targeted on repeat or committed offenders.

Part 1: Understanding how first-party fraud occurs

There is relatively little literature – academic or grey – that focuses solely on first-party fraud, and that which does exist tends to focus on particular types. There is, however, a wider range of literature that looks at fraud more widely, and provides valuable information on the different motivations and routes to first-party fraud.

From this literature, our previous research on consumer decision-making, and our wider conversations with experts in fraud prevention, we have developed a stylised decision-making journey to someone committing first-party fraud, set out in Figure 6.

Figure 6: Stylised journey to committing first-party fraud



Source: WPI Economics

Unlike much consumer journey research, which focuses on a consumer journey to a positive or desirable outcome (such as taking up flood prevention or resilience measures, or choosing a low-emission vehicle), the consumer journey in this case is towards a negative outcome. So the focus is on increasing, rather than removing, the barriers at each stage.

It is important to note that these stages do not represent the conscious thought process of someone who might or does commit first-party fraud. Some of these stages will be irrelevant to a customer and they will 'bypass' the stage. The stages might also be in a different order altogether, or in the case of a highly opportunistic fraud, these stages may occur simultaneously. Ultimately, these stages are not 'gates' that a customer must pass through in order to commit first-party fraud, but points at which barriers could be raised to deter them and divert someone away from committing fraud.

Knowledge that an action is fraud

The first stage of our stylised journey considers whether someone recognises the activity as fraud. We know some people who commit first-party fraud do not realise they are committing a fraud. For example, previous surveys have found that significant proportions of people do not realise that 'fronting' is illegal.[v] This may be particularly true where a claims management company (CMC) or mule herder has provided the instigation and the individual effectively outsources their thinking. The Insurance Fraud Taskforce also found that due to misunderstandings about the nature of the claims process, people may exaggerate a claim without feeling it is fraudulent to do so.[vi]

In these 'inadvertently fraudulent' situations, although the individual will still need a motivation and a belief that the action (e.g. of making a successful claim) is achievable, they are very different situations and it is a very different journey to the eventual action.

Initial motivation

In order to knowingly commit a first-party fraud, an individual must have a reason for doing so. This may not be the first chronological stage in committing fraud – someone may first realise something is possible, for example – but it is a necessary step towards the act of committing fraud.

We have identified two broad types of motivation. While it is not always easy to tell what is a 'true' motivation rather than a post-hoc justification for an act, they seem to fit into two main categories. The first of these is personal gain. Most obviously, this is found through direct financial gain: someone making a false or exaggerated insurance claim or inflating their salary on a mortgage application stands to benefit financially (in the latter example, in the sense that they are able to purchase an asset of a higher value than they could have otherwise). This desire may in turn be driven by greed or financial necessity, which, may be the case particularly for council tax fraud, for example. Another important form of personal gain is social gain. This is likely to be particularly important for frauds that involve a status item (including deshopping, and some mortgage frauds), although social gain could be relevant to any form of first-party fraud, if a financial need comes from a desire to 'keep up appearances'.

The second main category of motivation is 'righting a wrong'. In these cases, the 'wrong' may have been committed by the defrauded company (or another in the same sector), or by another actor altogether, as in Box 1.

Box 1: Example of 'righting a wrong' as an initial motivation

Francis was burgled near to Christmas. Her losses included several hundreds of pounds of Christmas presents, which were not covered by her contents insurance. As a way of limiting the financial damage from the crime she submitted a claim for around £200 more than the actual stolen items.

Source: Adapted from Gill and Randall[vii]

Origin of initial motivation

Another way to look at the initial motivation is to consider where it comes from. Many of these come from an individual's own desires, or societal expectations. But others are instigated by an external actor, most notably CMCs and mule herders, who recruit people to carry out frauds on their behalf.

There are important differences between the two: mule herders are by definition committing fraud, whereas CMCs have a legitimate role to play in the judicial system and in helping individuals make and progress a claim. But there have been widespread concerns about the role CMCs have played in increases in whiplash and holiday sickness claims, and while not all such false claims start with a CMC, they are clearly a way in which fraudulent claims can originate.

Justification

If someone commits an act that they know or believe to be fraudulent, they will need to justify this transgression. People are, of course, extremely skilled at formulating justifications for their own behaviour, and the literature on fraud unsurprisingly provides a range of such justifications, which we highlight below.

Table 6: Examples of justification strategies employed by first-party fraudsters

Justification strategy	Example
Denial of victim	"It doesn't hurt anyone"
Denial of injury	"They're a big company, they can afford it"
Victim-blaming	"Their returns policy shouldn't be so open to abuse"
Appeal to social norms	"Everyone does it"
An allowable lapse	"I only did it once, and won't do it again"
Appeal to necessity	"I had no option"
Appeal to fairness	"Big companies rip us off all the time"

Sources: Adapted from Randall and Gill[viii] and Amasiatu and Shah[ix]

This shows a wide range of potential justifications a fraudster could draw on, and in practice they might have several available to them, so if one is challenged there is another to fall back on.

Achievability

Even if an individual is motivated and feels able to justify the fraud, their perception of achievability will also affect their propensity to carry out, or attempt to carry out, first-party fraud. There are two main factors that determine whether a first-party fraud is seen as achievable. The first is the need to have a relationship with a company, which is easy for a potential fraudster to achieve, whether or not the company was 'preselected' by the customer as the victim of their fraud.

But a potential fraudster also needs to believe that carrying out the fraud is possible, given the likelihood of the organisation successfully thwarting the attempt. This notion of possibility may come from personal experience (either of committing first-party fraud or of being in a situation where this could easily have been done), from knowing others have done it, or simply a perception that it is easy. Alternatively, an external influencer, such as a mule herder or CMC, may be able to reassure the claimant that their action will be successful.

Consequences

The final question is whether it is worth attempting or carrying out fraud. In answering this question, the relevant aspects are the likelihood and severity of the legal, financial, and social consequences to themselves – as well as the wider cost to (for example) other customers.

Table 7: Consequences of first-party fraud

Type of cost	To self	To others
Legal	Prosecution	N/A
Financial	May be fined or required to pay costs May invalidate insurance Cost of credit or insurance may increase	Costs of detection, prevention, and prosecution passed on through prices
Hassle factor	Harder to access credit (including e.g. mobile phone contracts) or insurance May be banned from retailers or firms	Firms may introduce 'friction' to deter fraud (such as more stringent checks, or less generous returns policies)
Social	May face social penalties	N/A

Source: WPI Economics

The existence and size of these costs varies between different types of fraud. For example, our understanding is that the practice of 'deshopping' is not illegal, although it may represent a breach of contract. And our survey has shown that there are some types of fraud that are both widely seen as justified and perceived to be common, which may reduce the threat of 'social consequences'.

Part 2: Using this framework to identify interventions

Given the range of types of first-party fraud and the different journey types, there is no 'silver bullet' to reducing first-party fraud, and in any case placing excessive reliance on any single point of the process comes with risks. A strong reliance on highlighting the non-legal consequences such as entry onto the Cifas' National Fraud Database, for example, could lead to a customer backlash, and even act as a 'precipitator' for some people to commit fraud.[x]

However, our framework also suggests that there are two main areas to target to effectively reduce the costs of fraud. These are:

- Increasing recognition of what is fraudulent, to deter inadvertent first-party fraud; and
- Increasing the 'nos' in the rest of the journey.

While having multiple intervention points increases the challenge for fraud prevention, it also offers an opportunity, as it allows for a package of solutions to be implemented that targets several points, and reduces the reliance on a single solution being achievable or effective.

As there are so many types of first-party fraud, all with differing characteristics, no combination of factors will be suitable across the board. We do, however, think that there are particular 'action areas', where government and / or industry can take action that cuts across the stages of the consumer journey to maximise the impact and the likelihood of an individual being deterred from attempting fraud.

Alongside these action areas, there is a strong case for developing a common understanding and improved, consistent and regular reporting of data on first-party fraud across affected industries. At present the available data, while valuable, is highly incomplete, and often collected by trade associations that do not have full coverage of all relevant sectors (or by individual companies). Improving this would both enable the fraud prevention industry to better identify areas of high concern at an early stage, and to demonstrate the true scale of the problem to encourage all relevant bodies to take effective action. Recent moves by the clothing retail industry to 'blacklist' suspected repeat deshoppers demonstrates the potential impact of this activity.[xi]

Action area 1: Raising public awareness

A common theme across many of the stages of the consumer journey is a need to raise awareness among the public. Raising awareness that an action is fraudulent may be sufficient for customers who would never knowingly commit fraud but who may otherwise do so through ignorance. For those who do not have as strong an aversion to committing fraud, raising awareness of the counter arguments to common justifications, the barriers to achievability, and consequences if fraud is detected may deter them.

Key among these is a public awareness campaign across different sectors in which first-party fraud occurs, with several aims:

- Raise awareness of actions that are fraudulent;
- Tackle common justifications for fraud;
- Highlight the existing checks that companies carry out; and
- Highlight the consequences of first-party fraud, both for the individual and more widely.

This is a crucial part of tackling first-party fraud – but it is important not to rely too strongly on a public awareness campaign to reduce its incidence. For such activity to lead to a change in behaviour, it needs to achieve three things in relation to a potential fraudster. The message needs to:

- Be seen;
- Be understood; and
- Be recalled at a relevant moment.

Any individual who fails to clear any one of these 'hurdles' will not be affected in the intended way by the campaign. There may be opportunities to provide 'just-in-time' notifications for some types of fraud, such as when someone is applying for a Single Person Discount or making an insurance claim, to provide the messaging at a highly relevant time.

Behavioural economics offers a range of insights into how communication can affect people's decisions. The Behavioural Insights Team, has set out the key principles from behavioural economics for reducing public sector fraud, error, and debt that are easily applicable to first-party fraud inside and outside the public sector.[xii] Ensuring that any advertising campaign adheres to these findings will be hugely important in its success.

The Insurance Fraud Taskforce also highlighted several features of the insurance market that could combine to reduce trust in the sector and therefore lead consumers to justify fraud based on perceived unfairness in this sector.[xiii] This may then increase incidences of first-party fraud, leading to insurers trusting customers less and 'nitpicking' in order to reduce their fraud losses – but this will inevitably lead to genuine claims being rejected, adding to the sense of unfairness and creating a downward spiral of distrust. It is entirely possible that similar 'revenge' justifications exist for frauds perpetrated in other sectors, such as Council Tax fraud, and if this is found then working to improve the public perception of those sectors could be valuable in reducing the power of these justifications.

	Stage of journey targeted				
Action	Knowledge of fraud	Motivations	Justifications	Achievability	Consequences
Public awareness campaign					

Grey boxes highlight the stages of the journey that could be affected by a public awareness campaign.

Action area 2: Changes to company processes

There are also actions that individual companies, or companies within a sector affected by first-party fraud working together, could take to push someone from the path to committing fraud. These include:

- Adapting processes, e.g. changing the placement of a declaration of honesty in an insurance claim form to activate positive motivations;[xiv]
- Making structural changes to make common fraud types more difficult. This could include, for example, putting labels on the outside of garments to discourage deshopping;
- Where fraud occurs because of a gap in the market, developing new products and services to enable that gap to be filled without fraud. An example here could be offering clothing or jewellery rental options alongside purchase options, in a similar way as the evolution of legal film and music streaming websites is believed to have reduced the impact of illegal filesharing;[xv] and
- Improving data-sharing within sectors to better identify suspected fraudsters, and between companies and law enforcement to make enforcement activity easier.

In some cases, introducing friction is likely to be difficult as it goes against the grain of current trends in consumer preferences and market developments. An example of this is the rise of online clothing retailers offering 'try before you buy' options – which provides an opportunity to wear the item prior to returning it. Physical retailers may feel required to compete on returns policies with online retailers, meaning that potential deshopping fraudsters will have ample opportunity to wear an item then return it. That's not to say that technological developments won't in time reduce this difficulty; some retailers have introduced technology that allows a consumer to show clothes on a virtual avatar of themselves.[xvi]

Together these measures could tackle the motivations, reduce the achievability of first-party fraud, and increase the likelihood of consequences 'biting'.

	Stage of journey targeted				
Action	Knowledge of fraud	Motivations	Justifications	Achievability	Consequences
Changes to company processes					

Grey boxes highlight the stages of the journey that could be affected by changes to company processes.

Action area 3: Regulatory change

A third key area for action is around regulation. Regulation can reduce the motivations of claims management companies (CMC) to find and encourage false or exaggerated claims, and of customers, by reducing the maximum potential payout (i.e. affecting the risk-reward trade-off). Regulatory change can also affect the balance on the 'risk' side, by increasing the consequences - although this would need to be accompanied by greater awareness of these consequences if they are to affect behaviour.

Government has recently legislated to limit payouts for whiplash claims (from next year),[xvii] and has brought package holiday claims (including holiday sickness) within the fixed recoverable costs regime to reduce this incentive.[xviii] There have also been proposals to do the same for noise-induced hearing loss claims,[xix] although at the time of writing this has not yet occurred. However, given the incentives that CMCs face to identify potential clients, and that clients themselves face to progress a claim, we would expect new types of claims to arise. Here, a pre-emptive approach that identifies the characteristics of types of cases vulnerable to fraud and limits costs could be more successful.

	Stage of journey targeted				
Action	Knowledge of fraud	Motivations	Justifications	Achievability	Consequences
Regulatory change		(only for CMC)			

Grey boxes highlight the stages of the journey that could be affected by regulatory change.

Action area 4: Enforcement

Finally, enforcement is key to reducing first-party fraud. There will always be people and groups willing to commit first-party fraud, and therefore always a need for enforcement. Prosecution or other consequences clearly provide a deterrent to that individual (through the punishment), but if that enforcement activity is widely communicated it can also dissuade potential fraudsters by confirming that the consequences are both real (they exist) and credible (they might actually apply).

Only part of the process of prosecution – detection – is within the fraud prevention industry's control. Also important is that a credible threat of actual enforcement, which is dependent on the issue being given sufficient attention and resource by law enforcement organisations.

This enforcement most clearly needs to be taken against first-party fraudsters themselves, but also against the mule-herders who work to recruit fraudsters for some types of fraud (e.g. mobile phone fraud and money mule fraud).

	Stage of journey targeted				
Action	Knowledge of fraud	Motivations	Justifications	Achievability	Consequences
Enforcement activity		(only where mule herder is involved)			

Grey boxes highlight the stages of the journey that could be affected by stronger enforcement

Bringing it all together

Combined, these four action areas target each stage of the customer journey to first-party fraud, as Figure 7 sets out. This agenda for action applies to first-party fraud as a whole, but there are important differences in the nature of first-party fraud in different sectors (and the sectors themselves) that will affect the opportunity and impact of these interventions.

We have identified a lack of research into several of the types of fraud in the scope of this study. An important next step is to bring together experts in relevant sectors that are affected by first-party fraud to assess the potential for such interventions with specific reference to their product or service.

Figure 7: Matrix of potential interventions against first-party fraud

	Stage of journey targeted				
Action	Knowledge of fraud	Motivations	Justifications	Achievability	Consequences
Public awareness campaign					
Changes to company processes					
Regulatory change		(only for CMC)			
Enforcement activity		(only where mule herder is involved)			

Source: WPI Economics

Conclusion

First-party fraud is a major issue for businesses in the UK across several sectors, including banking, insurance, and retail, as well as the public sector. At a conservative estimate, first-party fraud cost billions of pounds a year, amounts that are ultimately passed on to consumers.

Reducing these costs will bring benefits not only to those organisations facing losses, but also to the people who ultimately pay. This report has set out a framework for understanding first-party fraud from a consumer journey perspective, which leads to a clear set of packages of action for industry and government to take to reduce the costs of this type of fraud.

The details of how this framework applies will vary by sector; one point that has been repeatedly emphasised to us is the variety of different types of first-party fraud, and the resulting lack of a one-size-fits-all solution. And the action areas we propose will require collaboration from a range of bodies, including membership organisations, government, law enforcement, and individual companies.

It may never be possible to eliminate first-party fraud; there will always be some people willing to attempt to defraud companies. But by taking forward the activities we propose in this report, we believe that industry and government can make a real difference and reduce the scale of the impact of first-party fraud to businesses, the public sector, and consumers in the UK.

Endnotes

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