

Fraud Fever: Scams Soar During Financial Downturn

After the sellout APIG Fraud Seminar held on 1 April 2009, Kennedy's Elaine Quinn examines the increase in corporate fraud in the wake of the global financial crisis.

Following National Consumer Fraud Week, held in early March 2009 to coincide with International Fraud Month, the Fraud Seminar provided a timely opportunity for the discussion of the topic of fraud prevention. Hosted by the Australian Professional Indemnity Group (APIG), the Seminar was to tackle a problem of broad public significance. Losses caused by fraud are very often the basis of insurance claims; thus, it impacts not only the insurance industry, but also the broader insured public.

The central focus of the Seminar was the recently published KPMG Fraud Survey 2008 (Fraud Survey) and the chief speaker, Robert Locke, Director at KPMG Forensic, gave an informative and entertaining presentation of the Fraud Survey's key findings. We were advised the typical fraudster in the corporate world of Australia and New Zealand is a rather ordinary fellow, aged thirty-eight years, occupying a non-management position, with six years' service to the organisation in question and no prior history of dishonesty. Plenty of heads looked around the room when this was announced!

The Fraud Survey was based on responses received from a representative sample of large public and private sector organisations in Australia and New Zealand to a detailed questionnaire compiled by KPMG. It covered the period

between February 2006 and January 2008, during which time a significant increase in corporate fraud was noted; the fraud reported totalled overall losses of \$301.1 million, and an average of \$1.5 million sustained by each organisation.

Mr Locke also explained the Fraud Survey revealed gambling as the most common motivator for fraud at an average of \$1.1 million per incident. 44% of the total value of fraud was attributed to this reason without any apparent more specific motive. This reportedly was a twofold increase over the KPMG Fraud Survey 2006. The second most prevalent motive observed was greed and lifestyle which accounted for 37% compared to 54% in the 2006 Fraud Survey.

Although externally instigated, fraud is extremely common particularly within the financial services sector. The perpetrators of 'major' frauds are typically individuals working within organisations, with managers responsible for the highest total value of fraud, totalling \$24.4 million. This figure includes one incident of a reported loss of \$19.8 million.

Speakers at the Seminar emphasised the necessity of internal controls within an organisation for the prevention and detection of fraudulent behaviour in addition to obtaining an adequate level of insurance cover. An effective fraud management plan must include a system of anonymous reporting, in order to protect whistleblowers and encourage the disclosure of all suspicious incidents. The cost effectiveness of such systems, which can potentially save millions of

dollars, cannot be overemphasised.

Due diligence in recruitment processes was highlighted as another effective internal control, as 15% of scammers are marked by some prior act of dishonesty in their work history. Interestingly, early 'red flag' indicators of fraudulent activity are often overlooked or ignored in large organisations. These can include excessive displays of wealth, aggressive management styles, refusal to implement internal controls, supplier favouritism and gifts to other staff members (particularly those that would appear to be beyond the person's financial means). Any of the above signs should be investigated promptly in order to ensure that fraudulent activity is more quickly detected.

The Fraud Survey is clearly part of a growing awareness of the prevalence of fraud on our society. The International Fraud Prevention Month is a global campaign in February and March every year. As part of that campaign Australian National Consumer Fraud Week was held on 2-8 March 2009. These campaigns aim to raise society's awareness of scams and frauds and encourage people to take action and report whenever possible.

Instances of fraud are being detected on an increasing scale around the world in the wake of the global financial crisis. Australia is no exception with close to \$1 billion incurred every year by Australian businesses that fall prey to 'scammers' with insurance companies being a common target. A shocking reported instance of such 'scamming' in the wake of the Victorian bushfires involved a

woman who claimed to be the daughter of a man who had died in the fires, in hope of obtaining \$15,000 in compassion payouts. It came to light that the woman, in fact, bore no relationship to the deceased man. This seems extreme however fraud on insurers, like tax fraud, is looked upon by many people as being a victimless crime and an “acceptable crime”. What many don’t realise is the cost of this “victimless crime” is passed on to the general community through higher insurance premiums.

Insurance fraud can be defined as ‘the intentional misrepresentation of material facts and circumstances to an insurance company to obtain payment that would not otherwise be made’. Offences can range from the ‘little white lies’ to an insurer to an all-out scam where a person deliberately fakes an accident, injury, theft, arson or other loss, in order to collect a payout from their insurer. Contrary to popular perception, the majority of insurance fraud falls into the former category and is committed by otherwise law-abiding people who convince themselves that there is nothing wrong with marginally overstating their losses, or altering key facts relevant to their claims.

According to an annual KPMG Forensic Fraud Barometer Survey, the level of fraudulent activity in the United Kingdom has reached a thirteen-year peak. As the world economy continues to flounder and individuals find themselves under increasing financial pressure, Australia stands to face a similar increase in instances of fraud. For insurers, many

invest heavily in specialised software and personnel to improve fraud detection. However, it may now be necessary to consider more sophisticated forms of cooperation, particularly as economic conditions deteriorate. The Managing Director of one of Australia’s leading insurers recently suggested that it may be beneficial for insurers to pool their resources and intelligence rather than working in isolation from each other.

It is interesting to note in conclusion, a report produced by the Australian Institute of Criminology on insurance fraud over 10 years ago called for legislation to be enacted to create insurance fraud as a specific offence. This is already the case in the majority of the US states. Given the current climate and the eye-opening results of the latest KPMG fraud survey this legislation may be needed in Australia now more than ever.