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1. Executive summary

- Over £1 billion paid out in Fraudulent claims for Incapacity Benefit, Social Housing, Single Person Discount, Council Tax and Housing Benefit could be quickly erased if simple, inexpensive and proven data matching techniques were implemented more widely in the system.

- Experian estimates that fraud in the public sector could double over 2010, rising to £5 billion a year (currently running at £2.5 billion excluding loss of tax receipts; source NFA) following the trend of first party fraud in the private sector. In particular, we expect to see rises in a number of frauds including insider, housing benefit, tax credit, income support and incapacity fraud.

- Our insight suggests that fraud will increasingly be perpetrated by those that have not historically been responsible for fraud. Much of this fraud will be opportunistic, triggered by unprecedented levels of personal financial stress. This includes young, well educated city dwellers who are increasingly turning to fraud to maintain lifestyles.

- We expect organised criminals to direct more of their efforts towards the public sector as funding for criminal activities (including drugs, terrorism and people trafficking) is becoming harder to obtain from commercial financial services sources.

- Insider fraud is likely to become a significant problem in the public sector, exacerbated by the expected rise in public sector redundancies over the next 18 months.

**Experian's core fraud fighting capabilities include:**

1. Ensuring that the citizen is who they say they are at the point of service need without relying on easy to forge identity documents

2. Fast tracking individuals who satisfy identity and eligibility criteria, focussing on those that are of potential high risk

3. Undertaking comparative sector analysis; looking for inconsistencies and anomalies with the information being provided

4. Continuing to assess risk whilst in receipt of benefits, monitoring for changes in circumstances which may lead to lower levels of entitlement

5. Sharing fraud experience widely across both private and public sector to ensure that the risk of dealing with an individual is understood
Public sector fraud is now costing taxpayers £17 billion in total, and may now be rising by as much as £2.5 billion a year. This rise has been fuelled by financial stress, rising unemployment and specific, rectifiable weaknesses in the UK benefits system.

There is no doubt that the current economic climate is placing severe strains on citizens and opportunistic fraud is therefore on the rise just at the time when the benefits systems and public services are facing greater pressure to deliver to those in need. By putting in place tools that rapidly verify citizens and work with them to manage their identity and requirements, it is also possible to streamline public services and to deliver resources to those in need more rapidly.

Of the £17 billion we estimate that £1 billion of this could be tackled in the near term, making a significant contribution to deficit reduction, or reinvestment in front line services.

Experian has the capability to effect a crack down on incapacity benefit, social housing and council tax fraud and prevent fraud before it occurs. By using simple, inexpensive data matching techniques, citizens and their needs can be identified more efficiently. This transparency would reduce the weaknesses in the system, creating disincentives for opportunistic fraud as well as serving to pinpoint more systematic fraudsters.

Our estimates are based on proven work, case study examples and years of experience tackling fraud in the public and private sector. This report shows how better use of information, more effective data matching, insight from the private sector and wider sharing of key data remains the way to tackle a range of benefit frauds quickly.

These are quick wins for the Government. Fraudulent claims for Incapacity Benefit, Social Housing, Single Person Discount, Council Tax and Housing Benefit could be significantly reduced as we have outlined and costed overleaf:

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1 National Fraud Authority estimates £17.6 billion
Up to £600m from Social Housing Tenancy fraud. Work in London by Experian has shown that Social Housing Tenancy Fraud could be reduced by £200m. If the same methods were applied across the whole of the UK, this could result in savings in excess of £600m. By reducing the amount of inappropriate and fraudulent claims for social housing, accommodation is also made available for those in genuine need. By freeing up social housing we anticipate a significant reduction in temporary accommodation costs, running at over £1 billion a year.

Up to £300 million from Incapacity Benefit fraud. Experian estimates that savings up to £300m could be made in the short term by identifying those that should not be claiming Incapacity Benefit. The approach which has been tested uses simple data matching techniques to identify lifestyles incompatible with people genuinely incapable of work.²

£100m a year on Single Person Discount fraud. Experian has already delivered £30m of savings identifying Single Person Discount fraud using simple data matching in a number of local authorities. This is cash straight back to tax payers and if the same procedures were extended to all local authorities savings could reach up to £100 million a year.³

£17m a year on Housing and Council Tax fraud. Experian’s Housing Benefit and Council Tax Benefit fraud detection service has proved so effective that the Department for Work and Pensions (DWP) is rolling it out to all 380 local authorities in the UK. The announcement by the DWP follows a highly successful localised pilot which showed how Experian’s service could reduce housing benefit fraud by £17 million a year in the UK.

Charlotte Hogg

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² Savings figure is based on an average overpayment of Incapacity Benefit which is continuing unchecked, either down to fraud or error. DWP’s latest National Statistics estimate Incapacity Benefit fraud for the period 2009/10 is around £30 million (£70 million in 2008/09). The £300 million savings will capture a significant level of existing overpayment, error and fraud, which will be prevented from continuing into future years.
³ Audit Commission estimates £90 million a year
3. The growing threat of public sector fraud

Fraud is an increasingly prominent and costly issue. Simon Martin, Head of Public Sector at Experian, discusses the changing nature of fraud and the impact it is having, and will continue to have, on public sector organisations.

The finances of the public sector are facing increasing pressure. The drive towards greater efficiency is already necessitating the need to ‘do more with less’, while the economic environment means that income streams will see further declines if unemployment rises and business failures increase.

Against this backdrop and the estimated £156 billion shortfall in public sector borrowing, the revelation from the National Fraud Authority (NFA) that the public purse is being hit by fraud to the tune of £17.6 billion a year, brings to stark attention to the fact that fraud in the public sector is now a national epidemic.

A significant level of fraud is not committed by serious fraudsters. Indeed, our analysis indicates that much of the fraud is opportunistic and results from citizens under financial stress not informing the authorities of changes in circumstances or falsifying details on applications.

Much has been done over the last few years to combat fraud and many public sector bodies are developing a zero-tolerance approach to the problem. Measures include improving governance arrangements, establishing audit committees, creating a strong counter-fraud culture with training and support for specialist personnel.

However, more can be done to prevent fraud entering the system in the first place. The adoption of the type of best practice policies and procedure used by many private sector firms will help. There are a number of areas that can be more widely utilised, especially around electronic ID verification, residency checking, fraud risk analysis, monitoring for changes in circumstance and data sharing.

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### Cost of fraud in the public sector

<table>
<thead>
<tr>
<th>Area</th>
<th>Cost of fraud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax losses</td>
<td>£15.2 billion</td>
</tr>
<tr>
<td>Benefits</td>
<td>£3.1 billion</td>
</tr>
<tr>
<td>Local government</td>
<td>£684 million</td>
</tr>
<tr>
<td>Central government</td>
<td>£356 million</td>
</tr>
<tr>
<td>NHS</td>
<td>£263 million</td>
</tr>
<tr>
<td>Pensions</td>
<td>£64 million</td>
</tr>
</tbody>
</table>
Much progress has been made, as evidenced by the DWP in its use of risk scoring and data sharing to reduce housing benefit fraud. But more could be achieved if these examples were applied more widely and systematically across the whole benefits system and within the public sector as a whole.

**Estimates of fraud and error across all benefits in 2009/10**

- For 2009/10, it is estimated that 2.1 per cent, or £3.1bn, of total benefit expenditure was overpaid due to fraud and error.
- The preliminary estimate for the percentage overpaid in 2009/10 is lower than the estimate for 2008/09 published in November 2009. The estimated percentage of benefit expenditure overpaid has decreased from 2.2 per cent to 2.1 per cent. In value terms, however, overpayments have risen from £3.0bn to £3.1bn, due to the increase in benefit expenditure.
- For 2009/10, it is estimated that 0.9 per cent, or £1.3bn, of total benefit expenditure was underpaid due to fraud and error.
- The preliminary estimate for the percentage underpaid in 2009/10 is the same as the estimate for 2008/09 published in November 2009. In value terms, however, underpayments have risen from £1.2bn to £1.3bn, due to the growth in benefit expenditure.

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Fraud will increasingly be perpetrated by those that have not historically been responsible for fraud. Young well educated city dwellers are increasingly turning to fraud to maintain lifestyles. Procedures must be put in place to counter this emerging threat and avoid creating a generation of citizens who, having started by opportunistically withholding information, in the future regard this action as common practice.

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4. The fraud outlook

Future trend 1: Fraud will rise across the public sector, fuelled by financial stress and opportunism.

Indications from the private sector suggest that fraud is on a steep upward curve and this trend is likely to be mirrored in the public sector. Experian has identified a significant rise in First Party Fraud during 2009, this includes fraudulent applications for vehicle loans, mortgages, credit cards, bank loans, hire purchase and other forms of lending.

First Party Fraud involves citizens falsifying personal information about themselves normally to obtain financial benefits. Much First Party Fraud is opportunistic and is driven by financial stress.

First Party Fraud represented around 28 per cent of fraud cases identified by Experian in the first three quarters of 2009, but this escalated to over 46 per cent in the final three months of the year.

Further analysis by Experian shows that the types of people perpetrating First Party Fraud match similar profiles to those attempting a range of opportunistic benefit frauds in the public sector.

Experian estimates that, if replicated in the public sector, the rising trend in First Party Fraud, could see the £2.5 billion annual fraud loss (excluding tax losses) increase to £5 billion by the end of 2010.\(^6\)

Mosaic analysis of First Party Fraud in the commercial sector reveals a number of social groups with a higher propensity to commit fraud. These social groups also represent a significant risk to specific types of fraud in the public sector (see table below). Our analysis reveals that a small number of social groups are responsible for a significant share of First Party Fraud. Many of these people would not normally commit fraud however personal financial stress brought about by difficult economic times means that these people are open to exploiting opportunities when they present themselves.

The most significant of these social groups are classified by Mosaic Public Sector as:

- **Mosaic Group I.** Lower income workers in urban terraces
- **Mosaic Group G.** Young well educated city dwellers
- **Mosaic Group N.** Young people renting flats in high density social housing

\(^6\) Figures calculated by extrapolating known growth in first-party fraud attempts reported to Experian/National Hunter against public-sector fraud loss estimates in the National Fraud Authority report.
By looking at what is occurring in the private sector, and by analysing the types of people perpetrating first party fraud, we can draw some insights about the types of people most likely to be committing fraud in the public sector. We can also identify where the highest rises in public sector fraud are most likely to occur and which Mosaic groups are most likely to be responsible.

We already know that Public Sector Mosaic (a tailored public sector version of MOSAIC) Group I (Lower income workers in urban terraces) contains a significant number of individuals claiming Housing Benefit, Single Person Discount (SPD), Incapacity Benefit and Tax Credits. The fact that this group also perpetrates 17.28 per cent of all First Party Fraud should also make it a prime group to watch for signs of fraudulent activity in public sector and a target group for prioritising counter fraud measures.

Similarly, Public Sector Mosaic Group G (Young well educated city dwellers) contains a significant proportion of singles claiming SPD on their council tax bill. The behaviour of this group as a whole, which perpetrates over 10 per cent of all First Party Fraud, suggests it should be a focus for targeted fraud investigations in the area of SPD fraud. In addition, Group G contains a significant proportion of public sector workers. Where inside fraud occurs, it is most likely to be perpetrated by people within Mosaic Group G. As we look forward, with further cuts in public sector spending and redundancies, Group G will also contain a number of potentially disaffected individuals with an intimate knowledge of the benefits and tax credit systems and its accompanying processes.

At the other end of the scale, the analysis identifies a number of very low fraud risk groups which means that public sector counter fraud resources can be focused on the areas of higher risk and for specific types of fraud within each of these Mosaic groups.

Mosaic Groups least likely to commit public sector fraud include:

1. Group L. Active elderly people living in pleasant retirement locations
2. Group A. Residents of isolated rural communities
3. Group C. Wealthy people living in the most sought-after neighbourhoods
### Social Groups most likely to commit fraud in the public sector

<table>
<thead>
<tr>
<th>Mosaic Group</th>
<th>Description</th>
<th>Share of First-party Fraud</th>
<th>Examples of possible areas of Public Sector Frauds</th>
</tr>
</thead>
</table>
| I            | Lower income workers in urban terraces                                       | 17.28%                      | • Housing Benefit and Council Tax Benefit  
• Single Person Discount  
• Incapacity Benefit and employment support allowance  
• Job seekers allowance and employment support allowance  
• Tax credits  
• Pension credit |
| G            | Young well educated city dwellers                                            | 10.84%                      | • Single Person Discount  
• Insider Fraud |
| N            | Young people renting flats in high density social housing                    | 10.46%                      | • Housing Benefit and Council Tax Benefit  
• Single Person Discount  
• Incapacity Benefit and employment support allowance  
• Job seekers allowance and employment support allowance  
• Tax credits |
| K            | Residents with sufficient incomes in right-to-buy social housing            | 9.57%                       | • Housing Benefit and Council Tax Benefit  
• Single Person Discount  
• Incapacity Benefit and employment support allowance  
• Job seekers allowance and employment support allowance  
• Tax credits  
• Insider Fraud |
| E            | Middle income families living in moderate suburban semis                    | 9.03%                       | • Insider Fraud |
| H            | Couples and young singles in small modern starter homes                     | 8.51%                       | • Single Person Discount  
• Insider Fraud |
| O            | Families in low-rise social housing with high levels of benefit need        | 8.13%                       | • Housing Benefit and Council Tax Benefit  
• Single Person Discount  
• Incapacity Benefit and employment support allowance  
• Job seekers allowance and employment support allowance  
• Tax credits |
<p>| J            | Owner occupiers in older-style housing in ex-industrial areas               | 5.88%                       | • Incapacity Benefit |
| F            | Couples with young children in comfortable modern housing                   | 4.69%                       | • Low fraud risk |</p>
<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Fraud Risk</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Residents of small and mid-sized towns with strong local roots</td>
<td>4.40%</td>
<td>Low fraud risk</td>
</tr>
<tr>
<td>M</td>
<td>Elderly people reliant on state support</td>
<td>2.48%</td>
<td>Low fraud risk</td>
</tr>
<tr>
<td>D</td>
<td>Successful professional living in suburban or semi rural homes</td>
<td>2.42%</td>
<td>Low fraud risk</td>
</tr>
<tr>
<td>C</td>
<td>Wealthy people living in the most sought-after neighbourhoods</td>
<td>2.13%</td>
<td>Low fraud risk</td>
</tr>
<tr>
<td>A</td>
<td>Residents of isolated rural communities</td>
<td>1.75%</td>
<td>Low fraud risk</td>
</tr>
<tr>
<td>L</td>
<td>Active elderly people living in pleasant retirement locations</td>
<td>1.69%</td>
<td>Low fraud risk</td>
</tr>
</tbody>
</table>

Source: Experian (March 2010)

It is not enough to vet individuals before/as they join an organisation. Steps need to be taken to ensure that individuals who could find themselves under attack from outside are continually monitored for signs of financial stress.
The national picture
Looking at the geographical picture of first-party fraud, there is a cluster of fraud hotspots around the East End of London. Analysis of data collected through the National Hunter fraud data sharing scheme shows that areas such as Shadwell, Stepney, East Ham, Walthamstow, Woolwich, Peckham and Barking saw far higher than average instances of first-party fraud attempts in the private sector, as did other less fashionable London districts such as Streatham and Willesden. Outside of London there were hotspots in Chatham, Leicester, Birmingham and Bolton. This geographical knowledge, combined with a profile of social types, could prove highly effective in helping to pinpoint areas and types of people likely to commit a range of specific frauds in the public sector.

In addition to this, an analysis of areas suffering the highest levels of financial stress will lend insight to identifying locations likely to experience higher rises in fraudulent activity. It is already established that financial stress is one of the prime drivers for fraud in both the private and public sector. Areas of high financial stress include Blaenau Gwent, Kingston upon Hull, Inverclyde and Glasgow City (see figure below).

Figure 6: Reported instances of first-party fraud attempts by postal district in 2009

![Map of instances of reported first party fraud attempts, 2009](source: National Hunter and Insurance Hunter / Experian (March 2010))
Organised criminals will direct more of their efforts towards public sector as funding for criminal activities (including drugs, terrorism and people trafficking) is harder to obtain from financial services sources.
**Future trend 2: Benefits system particularly exposed**

In the aftermath of recession, the benefits system faces probably its toughest challenge in recent years. The sheer volume of new applicants combined with intense pressure to deliver benefits quickly and efficiently is also an opportunity for fraudsters.

The danger is particularly acute when considering the wide spread job cuts many anticipate across the public sector. Fraud rises with unemployment, and we have already started to see the implications in the private sector. Many of these newly unemployed that will start suffering financial stress and some will have in-depth knowledge of the very systems that exist to support them.

A key challenge is to prevent fraud at the initial point of application because, once it gets through the gateway, the cost of post-event investigations becomes exponential.

Experian can assist by working with public sector bodies to electronically check that the person is who they say they are, ensure that the level of income that they say they have is consistent with other records, checks to ensure that they are not submitting multiple applications, checks to ensure that they have not been convicted of fraud in the past and ensure that their circumstances are what they say they are (e.g. confirming that the individual is single).

These checks alone won’t be sufficient, but they identify where further investigation may be required so the authorities can allocate their resources better. Rapid, online checks also allow a streamlining of applications for those that are appropriately claiming benefits, improving the service for them.

**Future trend 3: Organised criminal fraudsters migrate to public sector**

Organised criminal fraudsters are becoming increasingly specialised and picking niche segments in which to operate and increasing numbers of fraudsters will be targeting public sector organisations.

Criminals will be targeting the public sector as they know that many of the fraud measures used by public sector are operated after the event i.e. once a fraud is suspected rather than ensuring that fraud does not enter the system in the first place.

Areas they will be targeting include the benefits system (to obtain benefits/cash that they are not entitled to), access to social housing (and then to re-let the property at profit) and procurement teams (bogus contracts, work not completed/goods not delivered).

Benefit claims will continue to rise as the economy tightens creating further the opportunities for organised criminals as they know the benefit system will be under severe strain. A recent report from DWP indicates that benefits claimed by those of working age rose to 5.9 million in the twelve month period to August 2009, an increase of 13%. In the same period Housing Benefit claims rose by 10% and Job Seekers Allowance claims rose by 71%.
Future trend 4: Insider fraud to rise

With those left within the public sector likely to see pay freezes, the financial pressures that some at managerial level will be experiencing is likely to cause increasing numbers to attempt some form of insider fraud. This is a trend that has been seen in the private sector.

Data from BDO Stoy Hayward (79%)\(^7\) and KPMG (56%)\(^8\) indicate that the majority of financial losses attributable to insider fraud in 2008 were down to those in managerial positions, and Experian would expect to see greater numbers of managers and other senior public sector personnel, who may well have implemented or fall outside existing fraud controls, violate their positions of trust.

The Audit Commission’s report ‘Protecting the Public Purse’ warned that Councils should pay more attention to recruitment fraud and the associated risks it presents. Fraud occurs where an individual conceals a criminal conviction and/or makes false statements about their qualifications when applying for employment with the public sector.

There will be intense competition for jobs available in the public sector and individuals will tend to present their CVs in the best light possible. This is a concern as if they are successful they will often be put in positions of trust or where they have easy access to detailed personal financial information (e.g. benefits administration).

In the same Audit Commission report, the London Borough of Waltham Forest reported that where applicants were informed that they would be vetted 9% of applicants withdrew. Of those that were vetted 6% failed the vetting procedures, double the previous year.

This is a worrying trend and one that should be tackled given the risks it poses to the public and to the public sector organisations involved.

Recruitment fraud is easily and cost effectively solved. Sensible vetting of applicants at the application stage to ensure those with bogus or with undesirable histories are not appointed is a great first step however it is also worth investing time and resources to ensure that the risk with the existing compliment of staff is controlled.

It is crucial that public sector bodies put procedures in place to ensure that their employees are not in this position potentially exposing their employers as well as getting them into further difficulty.

It is important to remain transparent about checking for fraud as this knowledge becomes a deterrent in itself; if people know that thorough checks are taking place the incentive to commit fraud is naturally dampened.


\(^8\) Source: KPMG, 02-Feb-09. http://rd.kpmg.co.uk/mediareleases/15782.htm
5. Combating fraud in the benefits system

*With all public sector organisations needing to minimise losses and maximise every penny, preventing fraud has risen up the management agenda, writes Andrew Davis, Head of Fraud, Experian Public Sector*

‘*The NFA estimates that in 2008 alone, fraud cost the UK £30 billion. On average, it costs every adult member of the population £621 per year – both through direct impacts of frauds and recovered indirectly through taxation and the increased costs of products and services....*’

*Dr Bernard Herdan, Chief Executive, National Fraud Authority*

Fraudsters are composed of opportunistic and serious criminals. Serious criminals - based in the UK and internationally - are incredibly disloyal in that they do not care which organisations they defraud and by how much. Opportunistic fraudsters tend to use fraud to enhance personal lifestyles and can more easily be deterred through more effective fraud prevention measures.

Unfortunately the public sector does not have the luxury of choosing its customers and its activities are geared towards providing citizens and businesses with the help that they need as quickly as possible. As a result, counter fraud measures tend to be investigation and recovery focused (after payment has been made).

Management within public sector bodies realises that identifying fraud can have a huge and positive impact on an organisation’s finances. Fraud recoveries or reduction in payments made or services provided can release funds for additional projects or be ploughed straight back into frontline services.

Experian estimates that over £1 billion paid out in fraudulent benefit claims and social housing provision could be eradicated quickly if simple, inexpensive and proven data matching techniques were implemented more widely in the public sector.

This approach could mean an effective crack down on incapacity benefit, social housing and council tax fraud, yielding over £1 billion in real cash back to the tax payer and public purse. This is real money that could be returned to frontline services and factored into an emergency budget.
These savings include:

**Up to £600m from Social Housing Tenancy fraud.** Work in London by Experian has shown that Social Housing Tenancy Fraud could be reduced by £200m. If the same methods were applied across the whole of the UK this would result in savings in excess of £600m. By reducing the amount of inappropriate and fraudulent claims for social housing, accommodation is also made available for those in genuine need. By freeing up social housing we anticipate a significant reduction in temporary accommodation costs, which is currently running at over £1 billion a year.

**Up to £300 million from Incapacity Benefit fraud.** Experian estimates that savings up to £300m could be made in the short term by identifying those that should not be claiming Incapacity Benefit. The approach which has been tested uses simple data matching techniques to identify lifestyles incompatible with people genuinely incapable of work.9

**£100m a year on Single Person Discount fraud.** Experian has already delivered over £30m of savings for local authorities by identifying Single Person Discount fraud using simple data matching techniques adopted from the private sector. This is cash straight back to tax payers and if the same procedures were extended to all local authorities savings would amount to more than £100 million a year.10

**£17m on Housing and Council Tax fraud.** Experian’s Housing Benefit and Council Tax Benefit fraud detection service has proved so effective that the Department for Work and Pensions (DWP) is rolling it out to all 380 local authorities in the UK. The announcement by the DWP follows a highly successful localised pilot which showed how Experian’s service could reduce housing benefit by £17 million a year.

The fraud types, how much they cost the UK taxpayer and what can be done to combat them are described in the following diagrams:

---

9 Savings figure is based on an average overpayment of Incapacity Benefit which is continuing unchecked, either down to fraud or error. DWP’s latest National Statistics estimate Incapacity Benefit fraud for the period 2009/10 is around £30 million (£70 million in 2008/09). The £300 million savings will capture a significant level of existing overpayment, error and fraud, which will be prevented from continuing into future years.

10 Audit Commission estimates £90 million a year
### Social Housing Tenancy Fraud

<table>
<thead>
<tr>
<th>What is it?</th>
<th>Unlawful occupation of social housing (SH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who is responsible?</td>
<td>Local Authorities and housing providers</td>
</tr>
<tr>
<td>How is it done?</td>
<td>Applicant(s) not entitled to SH</td>
</tr>
<tr>
<td></td>
<td>Sub letting</td>
</tr>
<tr>
<td></td>
<td>Internal collusion</td>
</tr>
<tr>
<td></td>
<td>Identity Fraud</td>
</tr>
<tr>
<td>How can we combat it?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Validating ID and address history before joining the housing allocation list or temporary accommodation</td>
</tr>
<tr>
<td></td>
<td>Duplicate checking to ensure applicant has not applied to other local authorities</td>
</tr>
<tr>
<td></td>
<td>Background checking of staff</td>
</tr>
<tr>
<td></td>
<td>Alerting Housing providers where the tenant has moved</td>
</tr>
<tr>
<td></td>
<td>Sharing of fraud alerts</td>
</tr>
</tbody>
</table>

### Housing Benefit and Council Tax Benefit Fraud

<table>
<thead>
<tr>
<th>What is it?</th>
<th>Fraudulent claims for contribution towards housing costs (income related)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who is responsible?</td>
<td>DWP for policy, LAs for identification and investigating fraud</td>
</tr>
<tr>
<td>Size of problem?</td>
<td>£290 million p.a. (08/09) – all benefits ¹¹</td>
</tr>
<tr>
<td>How is it done?</td>
<td>Omitting to inform change of circumstances</td>
</tr>
<tr>
<td></td>
<td>Hiding income and/or assets</td>
</tr>
<tr>
<td></td>
<td>Living at address different to claim</td>
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<tr>
<td></td>
<td>Payment into incorrect bank accounts</td>
</tr>
<tr>
<td>How can we combat it?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current: Data used to report high risk cases + assist with investigation</td>
</tr>
<tr>
<td></td>
<td>Potential: ID Verification + Fraud detection + data sharing (combining public and private sector data via SAFO), Income modelling</td>
</tr>
</tbody>
</table>

¹¹ Figures for Housing Benefit and Council Tax Benefit fraud for 2009/10 are £240 million and £50 million respectively (£260 million and £50 million for 2008/09).
Council Tax – Single Person Discount (SPD) Fraud

What is it?
Discount for single occupancy (average £250 per claim).

Who is responsible?
Local Authorities

Size of problem?
Circa £100m p.a.

How is it done?
Claiming SPD whilst living with another person

How can we combat it?
- Validating claims electronically without the need to conduct a paper based canvas
- Establishing number of occupants at the property to identify multiple occupancy
- Providing occupant details via S29.3 of Data Protection Act 1998 where fraud suspected

Incapacity Benefit (and Employment Support Allowance)

What is it?
A benefit paid to individuals unable to work through illness or disability

Who is responsible?
DWP

Size of problem?
£3bn p.a. based on current caseload

How is it done?
Working whilst claiming

How can we combat it?
- Potential income suggesting employment
- Check to ensure claimant still alive
- Detection of developed identities
- Cross matching claims against databases of confirmed frauds and victims of fraud
- Inconsistencies between data provided by the claimant to DWP and data provided to other organisations
Case study: DWP: Housing and Council Tax Benefit – identifying ‘hard to find’ fraud

In 2008 and 2009 Experian worked with DWP to detect certain types of Housing and Council Tax Benefit fraud. A pilot was established with ten local authorities that looked at 20,000 standard cases. Experian provided a bespoke housing benefit checker solution that compared DWP data with a range of other sources, to flag potentially fraudulent cases for further investigation.

The pilot, which ended in September 2009, was an overwhelming success. Experian was able to identify ‘hard to find’ frauds, shortened the time required by local authorities to sanction claimants, helped identify cost savings and provided an estimate of potential benefit overpayments.

The DWP estimated that between £11 million and £17 million worth of savings could be made each year if these tools were implemented more widely.

National rollout of the solution to all local authorities will be underway during 2010

Can lessons be learned from the private sector?

In the private sector, use of electronic identity verification, fraud risk tools and data sharing are key to beating fraud. Another important difference is the way commercial organisations seek to obtain a single view of their customers so that they see all the points of contact with a customer and the services that are provided to them.

A pre-requisite of obtaining a single customer view is the need to ensure that the individual is one identity only. Organised fraudsters will often seek to establish multiple identities (or take over the identity of genuine applicants/customers) which is why more effective identity verification is the first step in eliminating fraud.

Public sector organisations tell us that a typical benefit application can take up to 30 days to be processed and for the claim to be paid. Many of the delays are caused by applicants producing incorrect proof of identity at the point of application. This is also a prime opportunity for fraudsters to use fake paper-based identification documents.

Electronic ID verification would allow more claims to be paid quickly allowing cases that require specialist assessment to be dealt with more speedily. This would in turn allow more staff to spend more time in the front line. A knock on effect would be that fraud could be prevented from entering the gateway allowing more investigation staff to be redeployed to the front line.

Whilst the private sector enjoys being able to choose the basis on which they do (or don’t do) business with a customer, it also invests heavily to ensure fraud does not enter the system. They do this in a number of ways including the introduction of sophisticated background checks on new employees, particularly those who will have access to personal data.

Sharing of fraud data

Sharing of data on suspected and proven fraud is a key technique employed by Financial Services companies, Insurance Companies and Telecommunications providers. They share data with each other to ensure that fraud does not enter the system. They also share data to ensure that customers that were acceptable at the start of the relationship do not pose a fraud risk during the term of the agreement/relationship with the organisation. They do this via services such as National Hunter (a solution maintained on behalf of member organisations by Experian).
There has always been a reluctance to share data between private and public sector though public sector bodies have been given access to certain shared data under provisions of the Data Protection Act 1998 and specialist powers provided under the Social Security Administration Act. 1992 and Social Security Fraud Act 2001.

Much of the reluctance relates to concerns and perception that legislation makes it difficult to share sensitive personal data in the public sector with the private sector. The Serious Crime Act 2007 seeks new ways to combat fraud. It means a significant shift in the way that these issues are addressed in the public sector, as shown by the proposals to ”enable information to be shared or processed to prevent fraud” and to ”enable data matching to be conducted in relation to fraud”.

Section 68 of the Act – Disclosure of information to prevent fraud – provides for the appointment of a small number of Specified Anti-Fraud Organisations (SAFOs) to facilitate data sharing across the private and public sectors. Experian was successful in being awarded SAFO status in 2008. Section 68 was introduced to provide a legal gateway for public sector authorities to share data with a SAFO in order to prevent fraud. All disclosures made to SAFO's must comply with the Data Protection Act 1998.

Experian is working with the National Fraud Authority and many of its customers to use this accreditation and capability to help tackle fraud across public sector.

Public Sector organisations can adopt a number of best practice private sector counter fraud techniques to assist in the fight against fraud:

1. Ensuring that the citizen is who they say they are at the point of service need without relying on easy to forge identity documents
2. Fast tracking individuals who satisfy identity and eligibility criteria focussing on those that are of potential high risk
3. Undertaking comparative sector analysis; looking for inconsistencies and anomalies with the information being provided
4. Continuing to assess risk whilst in payment, monitoring for changes in circumstance which may lead to lower levels of entitlement
5. Sharing fraud experience widely across both private and public sector to ensure that the risk of dealing with an individual is understood.
Forward thinking local authorities are becoming increasingly effective and efficient at validating single person discount (SPD) claims and preventing fraud. Andrew Davis, Head of Fraud for Experian Public Sector, discusses why, and the advantages it brings.

In its report Protecting the Public Purse\textsuperscript{12}, the Audit Commission estimates that council taxpayers could be losing almost £2 million a week to fraudsters who claim the 25% SPD on council tax. This amounts to around £100 million a year lost to fraud which can be more effectively prevented through a range of better detection and prevention practices.

Although a significant sum, it could well be underestimated. Experian has calculated that the annual savings could be even larger, in excess of £100m a year. This estimate is based on its Residency Checking service, which has been used by over 100 local authorities since 2006 and has saved over £30 million.

However, the Commission goes on to say that:

> There are significant financial benefits to councils in using targeted resources to prevent and detect SPD fraud. Some authorities are already using or considering cost-effective and innovative means of reducing this type of fraud including the use of data matching, annual reviews focused on high risk SPD fraud cases and verification checks when the first application for SPD is made.

Local authorities have done much over the last few years to combat fraud and many are developing a zero-tolerance approach to the problem. Measures include improving governance arrangements, establishing audit committees, creating a strong counter-fraud culture within the organisation with training and support for specialist staff.

The total annual amount to be raised from council tax in England in 2009/10 was £25.6 billion. This tax is collected locally and is a significant proportion (on average 24%) of the funding that local authorities use to provide services. Nationally 36% of households receive the 25% discount on their council tax.

One result of SPD fraud is that council tax levels are higher than they would otherwise need to be. Some local authorities in two-tier (county) areas of England point to disproportionate financial incentives as a barrier to tackling SPD fraud. In two-tier areas, the cost of council tax collection and fraud investigation is borne by the district council. As a result of pooling arrangements, the county council generally receives a larger share of the council tax collected and could, therefore, benefit more from any reduction in SPD fraud.

It is important that the issue of addressing SPD fraud is a responsibility that is shared. The main priority must be to protect the public purse and the cost of resourcing any exercise should be an obligation on all organisations that benefit within a two-tier system, based on clear invest-to-save principles.

\textit{Bob Trahern, Assistant Director (Revenues, Benefits and Customer Services), North Warwickshire Borough Council}

\textsuperscript{12} Audit Commission, 15-Sep-09: http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/20090915protectingthepublicpurse.aspx
SPD fraud savings
Residency Checker uses Experian’s unique consumer information databases, which through data matching techniques, combines a range of compliant public and proprietary data sources to detect thousands of fraudulent claims. Local authorities provide Experian with a list of addresses which are receiving a 25% SPD and are believed to be occupied by a single adult. Experian then returns an indication of whether an address maybe occupied by more than one adult.\(^\text{13}\)

Case example 1: City of Edinburgh Council
The City of Edinburgh Council has used Experian’s Residency Checker to improve its eligibility checks on SPD claims. The Council supplied Experian with a list of single residency addresses which Experian checked against its consumer information databases to obtain an indication of the number of adults residing at each address.

The results reaffirmed that 54,000 households were still entitled to receive the council tax single person discount. This meant the Council did not have to send a letter to these residents or process the returned documents.

Where the information returned showed the possibility of more than one person living at an address, the Council sent each address a canvass form asking the known resident to confirm the number of people living at that address.

It is a fact that when councils approach citizens to ask whether their circumstances have changed a very significant proportion readily own up. Therefore it is important to give people the opportunity to be honest and many local authorities take this approach in their communications.

Where the Council suspected there was a fraudulent claim, based on the data provided, a request for further information was made to Experian.


Case Example 2: Nottinghamshire district councils
Seven Nottinghamshire district councils, led by Gedling Borough Council, recognised that reviewing Council Tax single person discounts annually was a labour intensive paper exercise that generated little results.

It had noticed that there was a clear discrepancy between the number of discounts being claimed and the number of single person households identified elsewhere, specifically, in the 2001 census.

It was felt that there could be an opportunity to generate more Council Tax revenue by better identifying fraudulent or mismatched discounts and cancelling them. With an average discount value per household of about £275 and discrepancies across all of the seven districts there was potential to recover millions. The East Midlands Regional Improvement and Efficiency Partnership felt that the project could deliver substantial cashable savings and so agreed to fund it, saving the seven Councils nearly a quarter of a million pounds.

Over five per cent of all discount claims were cancelled as a result of the project, generating additional revenue of more than £1.8 million that can be ploughed back into services.

\(^\text{13}\) Access to Residency Checker by local authorities is permitted under Section 29 of the Data Protection Act, which covers legitimate use of consumer data for prevention of fraud.
7. Combating Incapacity Benefit and Employment Support Allowance fraud

Andrew Davis, Head of Fraud for Experian Public Sector, outlines how Experian can deliver significant savings by combating incapacity benefit and employment support allowance fraud.

The challenge
Research by the Department for Work and Pensions (DWP) suggests that up to a third of Incapacity Benefit claimants are fit for work with a further 11% potentially capable of work. A further proportion are working but have not informed DWP. It is estimated that Incapacity Benefit is being paid incorrectly to up to 1 million individuals at a cost of £3 billion per annum. This figure excludes those that withdraw from the process when reassessed for the Employment and Support Allowance introduced in October 2008 in the Welfare Reform Act 2007.

Fraud takes place when a claimant who has claimed that they cannot work due to ill-health or disability is working, without the authority of the DWP, whilst claiming the benefit.

Between 2010 and 2013, the 2.2 million existing Incapacity Benefit claimants will have their claims reviewed in line with the new Employment and Support Allowance. This was announced by DWP in the Welfare Reform White Paper in December 2008.

What more can be done to counter fraud?
Experian can provide an Incapacity Benefit ‘file scanning’ service to flag potential existing fraud and streamline the transfer of existing Incapacity Benefit claimants. This scan could be carried out within 4 weeks. Cases considered to be the highest risk can be prioritised by DWP and Local Authority fraud intelligence teams.

What does Experian look for?
Experian combines 1 billion consumer records to highlight potential fraud and changes in circumstances. Subject to legislative considerations, fraud and error checks include:

- Potential income suggesting employment
- Claimant not resident at stated address (forwarding address found)
- Claimant deceased
- Detection of developed identities
- Cross matching claims against national databases of confirmed frauds and victims of fraud
- Cross matching claims against other public sector data sources such as tax credit data (dependant upon agreement from HMRC)
- Inconsistencies between data provided by the claimant to DWP and data provided by the claimant to other organisations

How does scanning work?
Files are extracted from DWP systems, checked by Experian and returned to DWP. Cases can then be ranked so that those with the highest risk of fraud can be investigated first or cases of differing complexity or type can be assigned to different teams of investigators.

Following an initial fraud scan, changes of circumstance can be proactively provided to DWP including change of claimant’s address, change of income, and applicant deceased.

What evidence is there that this will save money?
Following a recent central government pilot, 4% of the existing benefit claims caseload was identified as potentially ‘high risk’ using file scanning. Approximately 1% had sanctions applied or were prosecuted. £17m of fraud and error overpayments per annum are projected to be saved. If this success is repeated for Incapacity Benefit then savings would be between £100m and £300m per annum (excluding internal process efficiencies).

What needs to be done – in terms of IT and legislation – to do this?
There are no significant IT project costs and file exchange protocols and security is already in place.

Public Sector should adopt tactics deployed by financial services organisations as they invest heavily to ensure that Call centre environments that enable access to personal financial data are protected. This includes banning mobile phones (which have cameras), pens, paper and all items that would be capable of recording personal data and being transported offsite.
8. Identity Authentication - Prevention rather than cure

Andrew Davis, Head of Fraud for Experian Public Sector, explains how Experian’s Authentication service can provide a fast efficient and paperless means of confirming individual identities.

The Audit Commission’s report ‘Protecting the Public Purse – Fighting Fraud in Local Government’ published in September 2009 noted that more resources need to be concentrated at the initial benefit application stage, before fraud or error commences, rather than on the costly and time consuming process of post-application detection and investigation.

There is no doubt that prevention is far cheaper and more effective than cure, yet too much time and money is spent chasing fraud and error once it has already entered the gateway. The significant cost and time associated with tackling identity fraud, removing inaccuracies and repairing the damage caused to valid identities once fraud has been detected is almost inestimable. Yet, for every type of fraud and error in public services, the best way to yield substantial service and efficiency gains is to develop more effective identification and authentication practices.

As the focus on dramatic cost cutting in public expenditure intensifies, balancing individual rights to privacy with responsibility, fairness and the need to tighten security whilst reversing the rising costs of identity fraud remains an issue of paramount importance.

With the scrapping of national identity cards, there will be no universal, government-issued photo ID cards that can be used to verify an identity when accessing public services. It is clear that organisations cannot continue to rely on paper-based proofs of identity (driving licences, passports, utility bills, etc) all of which are readily available over the Internet and easy to forge. The need now for paperless cost-effective alternatives that can satisfy the requirements for security and efficiency has never been greater.

Experian’s paperless identity management services are both proven and cost-effective. Already in use across the private sector, they are now helping the public sector reduce losses associated with giving benefits and services to the wrong people whilst speeding up the process of granting eligible individuals and businesses the services they need with minimum fuss and interference.

Using Experian’s authentication service, The City of Westminster was able to replace its manual parking permit renewal system with non-intrusive and robust authentication in real-time, enabling customers to confirm identity and residency online. Fully integrated and secure, the new system is delivering an improved citizen experience and delivering key values such as “one contact gets things done” whilst making significant cost savings and guarding against fraud and ineligible applications.

Achieving maximum impact with minimum disruption
Effective identity management is the key to ensuring services are delivered to the right people quickly. The paperless authentication solution accelerates citizen service, discourages opportunism and makes it easier to focus resources on suspected cases of fraud.

With secure access to a vast resource of consumer and business records from over 750 different sources, Experian’s ability to corroborate and check the validity of information is unparalleled by any public or private sector organisation in the UK. Through more active management of identification practices, the public sector can achieve the following:
• **Improved service**
  with fast-track processing and more direct access for genuine customers

• **Reduced risk and loss from fraud and error**
  with earlier intervention to protect vital resources

• **Prevent fraud and error occurring**
  with pro-active risk analysis and ongoing management

• **Operate faster at lower cost**
  with less constrained, lower cost and faster operations

• **Be socially responsible**
  with privacy protected and consistent targeted actions

• **Increase control**
  with prioritised workloads and automated checking

**Working with HMRC**
Experian has begun working with HMRC to authenticate applications for UK tax credits. HMRC uses Experian’s authenticate system to generate a range of “challenge response” telephone-based questions to validate the true identity of individuals. Authenticate seeks to ask questions which only the individual will know and has proved highly effective in fast tracking genuine applications for tax credits whilst enabling investigators to spend more time and resources on suspected fraud cases.

Experian’s authentication process for confirming identity is fast, efficient and paperless and early indications from the HMRC suggest it is creating a serious stumbling block for both professional and opportunistic fraud attempts.