



Cost of Economic Crime Report

February 2013

A review by the Serious Fraud Office of New Zealand's reporting of economic crime

Draft

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Foreword

Edward Nkune, Director, UK National Fraud Authority

Fraud is a pernicious crime that affects us all. It is a global crime perpetrated by both 'home grown' fraudsters and international criminals who maliciously deceive their victims, often the most vulnerable in our society. As with other serious crime the harm from fraud is broad. Not only can the direct victim be personally devastated, but their families and friends can also feel the impact. Society as a whole loses out to less efficient services due to public sector losses and investors can lose confidence in the profitability of the market.

All these reasons highlight why it is vitally important for fraud to be taken seriously and the first step of this process is to understand the scale and scope of the crime. The *Cost of Economic Crime Report*, produced by the Serious Fraud Office (SFO), is New Zealand's first step towards quantifying the scale of fraud, and follows in the footsteps of the UK's National Fraud Authority (NFA) which has been looking at measuring UK fraud since 2007.

In 2010, the first UK Annual Fraud Indicator (AFI) was published. It estimated that £30 billion was being lost from the UK economy each year due to fraud (including both detected fraud and undetected fraud). Undertaking this type of measurement is exceptionally difficult and improvements to the measurement methodology and better access to data each year have seen that original figure shift to £38 billion in 2011 and £73 billion in the most recent update in March 2012. These increases are likely to represent a better understanding of the problem, in particular the extent of undetected fraud, rather than an increase in fraud per se.

Through our work we have learned that it is important not to fixate on any initial 'big number' estimates. It has been the UK experience that debates over specific numbers, methodologies, and definitions do not materially change the overriding message that fraud is a significant problem to our economy and requires a united and coordinated response from all parts of the public, private and voluntary sectors. We would therefore encourage New Zealand officials to focus their energies on the primary goals of better understanding the scale of the problem, and responding effectively to it.

The NFA's AFI has been pivotal in getting fraud on the agenda, and bringing stakeholders to the table to collectively take action. By way of example:

- A major government initiative to address public sector fraud has already resulted in £72 million of savings.
- Private sector sponsorship of an insurance fraud unit within City of London Police has, in its first quarter of operation, made 80 arrests, resulting in one conviction so far and £12 million of insurance fraud under investigation.
- Cooperation and information sharing among mortgage lenders and Her Majesty's Revenue & Customs in the UK has resulted in tens of millions of pounds saved from mortgage fraud.

Against this background, the SFO's Cost of Economic Crime report should be seen as an important step in tackling economic crime in the New Zealand economy, and we wish the SFO every success in raising awareness of this serious crime.

Introduction to the Cost of Economic Crime Report

Simon McArley, Acting Chief Executive and Director, Serious Fraud Office

In March 2012, the UK NFA published its Annual Fraud Indicator which placed the annual cost of fraud in the UK at over NZ\$140 billion. The Authority made the observation that “It represents money that individuals, businesses and Government can ill afford to lose ...”

It would be alarmist to say that New Zealand faces a problem of the same scale. Equally, it would be complacent to assume we do not have a significant problem. Recent events in the financial services sector reinforce how important it is to have robust mechanisms in place to detect and discourage economic crime, and preserving New Zealand’s reputation as a safe place to invest and do business is a key part of the country’s continuing economic development.

In the last few years, the SFO has reorganised itself to better respond to new trends in economic crime, to restore and increase confidence in capital markets, and to protect the interests of consumers and investors. We are looking to collaborate more effectively across the public sector to combine our collective skills, powers and resources. We are also looking to work with our partner agencies to develop a better-informed perspective on the types and scale of serious financial crimes that are being committed in New Zealand.

New Zealand has not yet had the depth and breadth of research into the drivers and cost of economic crime that has occurred in some other countries. Without such research, we can only assume that the emerging issues and scale of economic crime being experienced internationally is affecting the New Zealand economy in a broadly comparable way.

This report is our first attempt to highlight the importance of estimating the scale of annual economic crime losses that have been suffered across the New Zealand economy – impacting individuals, companies and the government. It is an important step in helping us to understand the nature and scale of fraudulent activities occurring in New Zealand. With improved data and intelligence, we can not only fight economic crime more effectively, we can also identify policy options that may reduce future incidences of economic crime.

Developing the report has required information and cooperation from a number of government departments and private sector businesses and I would like to take this opportunity to thank those people who have contributed to its development. I would also like to thank the UK NFA for providing guidance and support throughout the development of the report, and for providing the Foreword.

Background and Objectives

This report is the first step in the process to understand the economic crime landscape by identifying the quantum of losses experienced on an industry/sector basis. This work arose as part of the *All of Government Response to Organised Crime* project. Whilst acknowledging there is some overlap between Organised Crime and Economic Crime¹, this report is focussed on economic crime specifically, and its purpose was to identify:

- The data currently available for estimating economic crime in New Zealand.
- Approaches and methodologies used overseas to quantify the total cost of economic crime (including both detected and undetected crime).
- How these methodologies might be translated, and potentially adopted, to estimate New Zealand's total cost of economic crime.
- Over time, how some of these methodologies might be used by agencies and sector groups to develop their own estimates of economic crime.

Context

A certain level of economic crime will always exist. Fraudsters will seek to take advantage of opportunities during periods of weak economic performance as well as periods of strong performance, but the way that their crimes manifest may be different as is illustrated in Box 1 below.

Box 1: Factors affecting economic crime

Overseas experience indicates that current economic pressures resulting from the global financial crisis have impacted the profile of economic crime risks and this can:

- Further influence otherwise honest individuals to carry out dishonest acts due to personal financial pressure.
- Divert resources away from vital anti-fraud controls inside organisations.
- Increase the number of potential targets for various scams or deceitful offers as more people struggle financially.
- Encourage fraudsters to change their behaviour and adapt to the opportunities now presenting themselves.

Overseas experience has also shown that the occurrence of natural disasters (such as the 2011 Christchurch earthquake) and social disruption present further opportunities for economic crime. It has been estimated that false or misleading claims can amount to between 10 per cent to 15 per cent of the total insurance claims lodged at such times.²

The core purpose of the SFO is to address the most serious or complex economic crimes, including bribery and corruption. This is achieved through our key activities of: investigations; prosecutions; contribution to policy development; and advisory work on fraud prevention, awareness and education.

¹ The UK NFA Annual Fraud Indicator March 2012 was unable to identify how much of the total fraud losses in the UK were attributable to Organised Crime

² See the October 2012 *Forensic Focus* article http://www.deloitte.com/assets/Dcom-NewZealand/Local%20Assets/Documents/Services/Forensics/Forensic%20Focus/nz_en_Forensic_Focus_October_2012.pdf

We have strong relationships with other Justice Sector agencies including the Police, Ministry of Justice and Crown Law Office, as well as other agencies such as the Office of the Auditor General, Ministry of Business, Innovation and Employment, the Financial Markets Authority, Commerce Commission, Reserve Bank, New Zealand Customs and Inland Revenue.

However, because the nature and extent of economic crime in New Zealand is not well understood, it is difficult to make informed strategic decisions about *where* to put resources, *how* to direct these resources to best effect (i.e. the best mix of interventions to cost-effectively address the problems), and *how much* resource needs to be applied.

The absence of a shared view may result in a tendency across all relevant agencies to respond to economic crime by investigating and prosecuting offences as the primary tool. To enable agencies to work more strategically together to tackle the problem, the SFO was directed to lead (in consultation with Police and Justice) an assessment of economic crime in New Zealand.

The project is one of a number of outputs that support our ultimate objectives to reduce the incidence and effects of financial crime and to enhance New Zealand's reputation as a safe place to invest. We see it as a first step in providing a better understanding of the problem, to support other workstreams in the *All of Government Response to Organised Crime* project such as the work to improve the effectiveness and efficiency of financial crime investigations, and to provide a better basis for thinking more systematically about the following questions:

- How much resource should be ring-fenced to address economic crime, especially in comparison to other 'common' crime types that have historically attracted more funding?
- Where are the significant areas of economic crime that resources should be deployed into? Which individual victims and particular sectors of the economy should be addressed and are there any gaps that need to be filled?
- What are the types and balance of interventions that are most likely to work, cost-effectively, to reduce losses by the largest extent, such as the development of preventative strategies aimed at eliminating or reducing the impact of identified enablers of economic crime?
- What is the level and location of agency and sector resource required to increase the reduction in economic crime over time?
- What opportunities exist to improve operational collaboration and co-ordination between agencies to reduce and disrupt economic crime?
- Ultimately, how successful have counter-fraud initiatives been?

Process

This report is based on a stock-take of **existing** information about economic crime in New Zealand – no new data collection activities or surveys were undertaken. As such we have not sought to provide a definition of economic crime, preferring in this first report to leave

that open to responding agencies and organisations so as to make best use of information already collected and collated. It should therefore be seen as a starting point for developing cross-sector research, methodology and reporting measures to provide accurate and meaningful data for subsequent reports.

Information about economic crime has been gathered from public and private sector participants who were approached to contribute to the report. Participants were prioritised: based on the size of their sectors in relation to the New Zealand economy; to provide a level of comparability with the UK AFI; and on the expected availability of data in particular sectors/industries.

Interviews explored how economic crime is measured, and information on the value of economic crime for the most recent year available was requested.

All participants were able to provide us with an estimate of detected economic crime for their sector/industry, but very few could provide an estimate of the level of undetected economic crime. Therefore, only detected economic crime figures are provided in this report.

For undetected economic crime, our approach (for this first version of the Cost of Economic Crime report) has been to identify overseas methods for estimating undetected economic crime, and to investigate ways that this data might provide a benchmark for future calculations in New Zealand. The methodologies and data available from international sources have provided a sound base for on going discussions with agencies and a possible guide for developing estimates of undetected economic crime in the future.

Annex 1 describes the sectors considered in this report, a summary of the types of fraud that occur in those sectors, and it provides a proposed “straw man” methodology for calculating total economic crime on a sector/industry basis.

Summary of findings

Detected Economic Crime in NZ

From the participants approached as part of this project, we have identified detected annual economic crime of approximately **\$300 million**. Although this was spread across several areas of the economy, the majority was concentrated in taxation and finance & insurance.

The table below shows the areas of the economy where information was collected. It presents detected fraud amounts provided by participants and the total figure detected should be interpreted with the following data limitations in mind:

- Not all participants could provide figures for detected fraud and large parts of the private sector are not included in the detected economic crime figure.
- Reported levels of economic crime will be influenced by the level of resources used to address the problem (i.e. some agencies may invest more to detect economic crime, and therefore uncover more examples of it).

Table 2: Detected economic crime

Area of economy	Detected economic crime (\$m)
Taxation	109
Social welfare	23
ACC	3
Customs	1
Health	4
Housing	7
Procurement and other public sector fraud	6
Finance and insurance	128
Mass marketing	5
Charities	15
Total	300

This detected economic crime represents 0.2% (rounded) of total New Zealand GDP. To illustrate the possible extent of undetected fraud, for the same sectors listed above, total fraud (detected and undetected) in the UK is currently estimated to be 4.8% of GDP.

Table 3: Comparison with UK AFI figures

Sector	Approximate percentage of GDP	
	New Zealand detected economic crime	UK total economic crime
Public sector	0.08%	1.3%
Private sector	0.07%	3.0%
Individuals/Non-profit sector	0.01%	0.5%

Undetected economic crime

As noted in the previous section, few participants could provide an estimate of the value, or proportion, of undetected economic crime in their sector/industry. However, based on exercises conducted overseas, and illustrated in the table above, it is reasonable to assume that the level of detected economic crime is likely to be only a small proportion of the total economic crime occurring in New Zealand. This is likely to be a common trend across the public, private and third sectors of the economy.

Given undetected economic crime is likely to represent a significant cost to the economy, it is hoped that this project can act as a catalyst for organisations to think about how to estimate the amount of economic crime they may not yet be detecting, and that, over time, New Zealand-specific methodologies can be developed.

We also expect that estimates of total and detected economic crime will change over time as more data becomes available and as the evidence underpinning it improves. To illustrate this point, the latest UK AFI has seen a significant increase from the previous estimates of the cost of fraud in the **private sector**, increasing from £12 billion in 2011 to £45.5 billion in 2012. This measure was updated following completion of a survey of UK firms and is now based on an assumption that fraud losses for private sector firms in the UK are approximately equal to 1.4% of turnover.

However, the key message we want to get across is that further measurement (of both detected and undetected economic crime) should be undertaken because this will positively impact our understanding of economic crime and how to respond to it. We also hope that organisations will become more comfortable discussing and estimating undetected fraud as a result.

As noted above, total economic crime (detected and undetected) in the UK is currently estimated to be 4.8% of GDP. While this provides a raw estimation of the likely scale of economic crime, the overseas approach has been to adopt a sector by sector and fraud type by fraud type approach.

A specific methodology is developed for each fraud type within each sector, and in some cases within those types, varying methodologies for the size and nature of specific participants in those sectors.³ These methodologies have been developed over time and have typically undergone a series of step changes over various iterations. These have typically resulted in large revisions in total estimates of loss year to year.

We are beginning this process. Annex 1 presents our initial attempts to develop methodologies for various fraud types. While we could at this point apply those methodologies and produce an estimated figure for total cost of economic crime, we are not yet sufficiently confident of the methodologies to do so. We are acutely conscious of the impact of such a figure and the risks that arise if the methodology is flawed or the calculations are based on unreliable data. We are also conscious to avoid the uncertainty and confusion that will result from large revisions to the estimates as we refine the methodology. We prefer to adopt a cautious approach.

The methodologies are therefore included for further discussion and refinement with agencies and sector representatives. We propose to actively seek that input over the next 6 to 12 months, and to seek independent peer review of the calculation methodology by NZIER.

Observations from the data collection process

The following observations result from our engagement with agencies during the data collection process. They help to demonstrate the difficulty in estimating the total cost of economic crime and also point to some areas where future work would be helpful:

- There is no consistent definition of economic crime, either in the public or private sector. Furthermore, some agencies only record incidents when a successful prosecution is brought, while others record any attempts to perpetrate financial crime.
- Existing New Zealand evidence tends to be focused on fraud committed within organisations, not fraud committed against organisations. As internal fraud only makes up a small portion of the total fraud figure, more emphasis could be placed on collecting data on external fraud.
- In some sectors it is very difficult to estimate the value of fraud because there are myriad ways for it to be committed, and/or it can be committed on a very low scale. Fraud against local government, in particular, can be difficult to estimate.
- Although there are regular surveys that collect information about private sector fraud in New Zealand, these rarely attract sufficient numbers of respondents to give a true insight into the level of the problem.
- Information on the level of economic crime in the private sector is limited compared with the public sector. This is generally because of the disparate nature and confidentiality constraints associated with private sector operations, but also because private sector stakeholders are often in competition with each other. In the public sector there is a single obligation to safeguard public funds, and reporting on fraud is part of that.

³ For example see NFA Annual Fraud Indicator March 2012.

- During the interview process it was evident that in some areas of the New Zealand public sector there is collaboration and sharing of data across agencies. It is hoped that this report will contribute to, or be a catalyst for, further inter-agency collaboration.

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Next steps / looking forward

This report and attached Annex will help to inform other work streams within the *All of Government Response to Organised Crime* project, and in particular the work to improve coordination between agencies involved in investigating financial crime. We also hope that organisations will become more comfortable discussing and estimating undetected economic crime as a result of this exercise. Important future activities are likely to include:

- Agreeing a single definition of economic crime.
- Making recommendations for agencies about how to record economic crime:
 - what to record
 - when to record it
 - how/when to share that information with other agencies to support efficient and effective financial crime investigations.
- Extending the recording of economic crime to include estimates of undetected amounts.

We plan to review this work in 12-18 months' time. This will involve repeating the data collection and then undertaking the exercise of applying proposed benchmarking methodologies to the data to estimate undetected economic crime. This will move us a step closer to providing an estimate of the full quantum of losses experienced on an industry/sector basis throughout New Zealand.

We acknowledge that applying international benchmarks to create estimates of undetected economic crime in New Zealand is inherently difficult, because there are inevitably different environmental factors that underpin the results, and different ways of capturing information, in different countries.

Different systems will present different opportunities for economic crime to manifest. For example, public sector programmes differ between countries (for example, ACC, student loans, and health and benefit systems) and may present greater or lesser opportunities for economic crime to be committed.

However, our view is that the benefits of developing a range of industry and agency estimates will outweigh the challenges. So, in the interim, we will be seeking input from the public and private sector in relation to both our proposed methodology for calculation of the full quantum, and the sources of data that may be available to apply to this task.

As with the UK, there is likely to be significant debate over undetected economic crime estimates. But the final numbers, chosen methodologies and definitions do not materially change the overriding message that economic crime is a significant problem that requires a united and coordinated response.

Annex 1: Economic crime descriptions and proposed calculation methodologies

Taxation

Detected fraud	\$109m
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Definition	<p>Taxation fraud is the deliberate, dishonest evasion of tax. For the purposes of this report, it includes the cost to the New Zealand tax base of tax evasion, criminal attacks and the cost of tax evaded through the “hidden economy”. It does not include the cost of errors, failure to take care, non-payments, interpretation issues or tax avoidance.</p> <p>The most prevalent fraud perpetrated on New Zealand’s Inland Revenue is tax evasion, where income is deliberately understated, or expenditure is deliberately overstated, when filing income tax or GST returns, or where returns are deliberately not filed when they are required.</p>
Detected fraud	<p>Inland Revenue estimates total detected fraud for the year to June 2011 of approximately \$109m. This includes frauds where individuals seek to obtain monies from Inland Revenue by fraudulent means as well as frauds where taxpayers deliberately evade taxes by providing false information, including false tax returns.</p>
Proposed Methodology for calculating undetected economic crime	<p>There are very real difficulties in estimating the total cost of tax evasion to a country’s economy. The hidden economy is just that – hidden – and therefore not possible to measure.</p> <p>Several overseas tax departments have made attempts to calculate the total size of their tax gap, and research and estimates of tax gaps have been performed by academics and international organisations.</p> <p>In developing this report, it was observed that all parties attempting to measure the tax gap appear to have fully recognised the potential inaccuracies inherent in their measurements but they also believe the exercise is worthwhile and that it can provide an approximate indicator of the magnitude of the issue.</p> <p>Nevertheless, there is still no internationally recognised methodology which is known to be accurate enough to inform policy decisions.</p> <p>While there are several studies and reports that provide a level of corroboration to the estimate of the total tax gap, there is little evidence around how much of that tax gap is fraud. For this, only one source (the UK’s HM Revenue and Customs) is currently available.</p> <p>However, even reference to the UK methodology as a comparator for NZ poses several challenges. Fundamentally the two economies are very different not only in terms of their relative size and composition, but also their demographics, respective attitudes towards risks and opportunities for fraud.</p> <p>In light of these challenges, including the integrity of any results, Inland Revenue has chosen not to invest any resources into calculating the tax gap. However, Inland Revenue does acknowledge the significance of the hidden economy in NZ and has a proportionately high number of resources deployed in this area.</p>

Overseas results

The total tax gap as a percentage of GDP and as a percentage of total tax paid arising from overseas work were: US⁴ - 2.9%/21.8%; Sweden⁵- 5%/10%; the UK in 2008/09 - 3%/8.8%; and the UK 2009/10⁶ - 2.5%/8.6%. No official data was available from Australia; however, in 2006 the Australian Bureau of Statistics estimated the underground economy to be 2% of GDP⁷.

However, as per the brief analysis of the UK methodology above, none of these are necessarily comparable to NZ.

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⁴ Update on Reducing the Federal Tax Gap and Improving Voluntary Compliance, U.S. Department of the Treasury, July 8, 2009.

⁵ Swedish National Tax Agency, Feb 2008:

⁶ UK National Fraud Authority Annual Fraud Indicator 2010 and 2011.

⁷ eJournal of Tax Research 2006, Volume 4 No. 1. (pg 70). Atax, Faculty of Law, University of New South Wales.

Social Welfare

Detected fraud \$23m

Description	<p>Benefit payments represent a significant portion of overall government expenditure. Benefit payments in 2010/11 were \$7.9 billion.</p> <p>The Ministry of Social Development (MSD) has a zero tolerance policy for benefit fraud. In all cases of planned, deliberate fraud the Ministry prosecutes the offender and pursues recovery of the debt.</p> <p>In addition debts are established following investigations where cases do not meet the threshold for prosecution.</p> <p>Benefit fraud is detected through allegations from front line staff, members of the public and from taking an intelligence led approach involving data mining payment systems.</p> <p>MSD has a strong focus on prevention and early detection of fraud. This includes regular reviews and checks of clients circumstances as part of their benefit management, a suite of data matches with six other government agencies to detect instances of non-compliance, intelligence driven integrity interventions, and investigations of cases of suspected fraud.</p> <p>The main cases of fraud are from undeclared relationships and undeclared income from working.</p>
Detected fraud	<p>In 2010/11 there were 658 successful prosecutions totalling \$22.5 million of benefit fraud.</p> <p>In addition to the cases of benefit fraud there were 1,766 cases where overpayments totalling \$17.2 million were established as the result of an investigation.</p>
Proposed Methodology for calculating undetected economic crime	<p>MSD does not estimate undetected fraud, instead it has a focus on preventing fraud by having strong systems and processes in place for the management of benefit payments so that clients understand and meet their obligations. Where this fails the Ministry investigates and holds to account those who have deliberately committed fraud.</p> <p>In 2008 an estimate of fraud on the benefit system was provided as part of a performance audit report prepared by the Controller and Auditor-General⁸In that report, the measurement of benefit fraud included cases of "substantiated overpayments". Normally this refers to cases of benefit overpayment where a decision has been made to take some form of enforcement action other than prosecution. However, the Auditor-General's report used the term "benefit fraud" more widely, to include cases of substantiated overpayments, regardless of whether criminal prosecution resulted from investigation.</p> <p>_____</p> <p>_____</p> <p>_____</p>

⁸ Ministry of Social Development: Preventing, detecting, and investigating benefit fraud. A report by the Controller and Auditor-General, June 2008

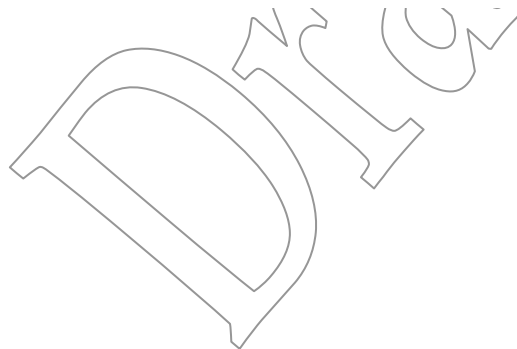
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Overseas results	As noted above the UK Annual Fraud Indicator used a figure of 0.7% of total benefits which resulted in the total welfare fraud as a percentage of GDP of 0.08%.

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ACC

Detected fraud \$3m

Description	<p>Fraud in the Accident Compensation Corporation (ACC) system is perpetrated by two different groups of offenders:</p> <ul style="list-style-type: none"> • Fraud by providers – which includes over-servicing and phantom billing. • Fraud by clients – which includes home help (attendant care) claims, over-claiming, false claiming and accidental death claims. <p>The most prevalent fraud occurs where claimants return to work and fail to advise ACC, or claimants misrepresent their incapacity so that they may stay in receipt of compensation.</p>
Detected fraud	<p>ACC maintains a record of all detected fraud committed by providers and clients. For the year to June 2011 this totalled \$3 million.</p>
Proposed Methodology for calculating undetected economic crime	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>



⁹ The Financial Cost of Healthcare Fraud: www.macintyreHUDSON.co.uk/publications/490/9091

Customs

Detected fraud		\$1m
Description	Fraudulent activity in the customs sector includes undervaluing goods, mis-declaration of goods, and not declaring goods being imported into or manufactured in NZ in order to evade duty, excise and/or GST.	
Detected fraud	<p>In the 23 months between January 2010 and November 2011, New Zealand Customs detected \$7 million worth of tax evasion activities. Annualising this amount provides just under \$4 million detected fraud including underpayments of duty, excise and GST. To avoid double counting, this amount has been reduced by 66% to remove the estimated impact of GST, using the New Zealand Customs Service ratio of GST collected to total tax, duty and excise collected for the 2010/11 year. GST is removed as this is already counted in Taxation fraud.</p> <p>This results in an annual estimate of detected fraud for the Cost of Economic Crime Report of approximately \$1m.</p>	
Proposed Methodology for calculating undetected economic crime	At this stage, a reliable benchmark has not been available to estimate undetected Customs fraud in New Zealand. ¹⁰ It is expected that further work will be performed in this area for the next report.	

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¹⁰ Some fraud data was made available relating to the cost of illicit tobacco growing, manufacture and distribution in the New Zealand market. However, there was some doubt as to the reliability of this data and it has not been included in the Cost of Economic Crime Report

Health

Detected fraud	\$4m
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Description	<p>The Ministry of Health manages \$14 billion¹¹ of public funds received through government health funding. More than three-quarters of this is allocated to district health boards that use this funding to plan, purchase and provide health services within their areas, including public hospitals and the majority of public health services. Most of the remaining public funding provided to the Ministry (approximately 20 %) is used to fund national services such as disability support, public health, specific screening programmes, mental health, elective, maternity and other services.</p> <p>This section only measures fraud losses from the Ministry of Health budget. It does not include fraud against the Accident Compensation Corporation (covered earlier in this Annex) or fraud occurring in private sector healthcare (where data is not readily available).</p> <p>Fraud in the health sector can be perpetrated by patients, healthcare professionals, staff, managers or contractors. The result of fraud losses is a serious and significant undermining of the quality and extent of patient care that can be provided by the public health system.</p> <p>Examples of health fraud include: prescription fraud by pharmacists, claiming payment for dispensing prescriptions that were either expired, not requested by patients or not authorised by the prescriber; doctors inflating the size of patient registers to obtain higher medical subsidies; and members of the public obtaining treatment they are not legally entitled to receive.</p>
Detected fraud	<p>Of the total Ministry of Health government funding of \$14 billion, a portion is overseen by the Audit and Compliance section of the National Health Board. For the Cost of Economic Crime Report, the National Health Board provided an amount for detected fraud of \$4 million. This is criminal fraud for the most recent 12 month period and the majority of this amount is, or is about to be, prosecuted.</p> <p>For this edition, no data was collected for detected fraud relating to the remaining \$8 billion of healthcare spending. Methods for collecting and collating this information on funding that is not overseen by the Audit and Compliance section of the National Health Board will be investigated for the next version of this report.</p>
Proposed Methodology for calculating undetected economic crime	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>The 2009 Ministerial Review Group (Health) stated “On the basis of international evidence, the expected cost of error and fraud is estimated to be about 5% of payments, which would translate into about \$285 million per annum. The Ministry cites this 5% figure but also indicates that ongoing sampling and data matching exercises suggest error rates of under 1% by volume”¹²</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>

¹¹ www.health.govt.nz/new-zealand-health-system/funding

¹² www.medicareaustralia.gov.au/about/media/media-releases/archived/2004/040906_dealing_with_fraud.jsp

[REDACTED]

[REDACTED] An estimate of healthcare fraud was made in 2004 by Australia's Health Insurance Commission (HIC). According to HIC, random audits conducted each year to estimate levels and identify areas of non-compliance have "consistently shown non-compliance levels to be less than 1%".

This 2004 Australian estimate of healthcare fraud is considerably less than that estimated in a 2009 study by MacIntyre Hudson and the University of Portsmouth Centre for Counter Fraud Studies. Their report "The Financial Cost of Healthcare Fraud" concludes that, internationally, healthcare fraud and error losses should currently be expected to be at least 3%, probably more than 5% and possibly as much as 10%. This study was based on work performed in the UK, the United States, France, Belgium, the Netherlands and New Zealand.

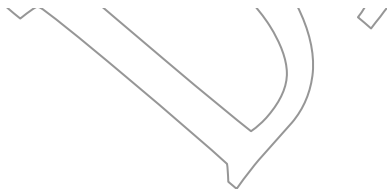
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Overseas results

Based on data provided in the latest UK Annual Fraud Indicator, total health fraud in the UK as a percentage of total GDP was 0.01%.



Housing tenancies¹³

Detected fraud	\$7m
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Description	<p>Housing New Zealand Corporation (HNZC) is the main agency responsible for providing subsidised rental homes to people in New Zealand. As at June 2011 it managed 69,717 homes.¹⁴ HNZC sets an income-related rent for the majority of its tenants and the Crown pays HNZC the difference between the amount paid by the tenant and the market rent of the dwelling.</p> <p>Local councils and community groups also provide social housing, but their housing stocks have not been included in this estimate because up-to-date housing stock information was not available for this report. In 2006, local councils were estimated to have 11,000 social housing units, and there were estimated to be between 2,100 and 5,400 Community Housing units.¹⁵ This equates to between 18% and 24% of HNZC's stock.</p> <p>Housing tenancy fraud is the use of social housing by someone who is not entitled to occupy it. Examples include falsely declaring income or using assumed names or false identities in support of tenancy applications.</p>
Detected fraud	In 2010/11, HNZC uncovered 241 cases in which tenants provided false or misleading information about their circumstances ¹⁶ and \$7 million in Crown debts were established for overpaid subsidies. ¹⁷
Proposed Methodology for calculating undetected economic crime	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
Overseas results	Based on data provided in the latest UK Annual Fraud Indicator, total housing fraud in the UK as a percentage of total GDP was 0.06%.



¹³ Tenants of Housing New Zealand Corporation (HNZC) properties receive a rental subsidy from HNZC and are not eligible for an Accommodation Supplement (delivered through MSD). Accommodation Supplement fraud is captured in the Social Welfare fraud section.

¹⁴ Housing New Zealand Corporation (2011), Housing New Zealand Corporation Annual Report 2010/11.

¹⁵ CHRANZ (2007), Affordable Housing: The Community Housing Sector in New Zealand.

¹⁶ Housing New Zealand Corporation (2011), Housing New Zealand Corporation Annual Report 2010/11.

¹⁷ Investigations' Outcomes 2010/11 - PowerPoint presentation provided by Housing New Zealand Corporation

Procurement and other public sector fraud

Detected fraud	\$6m
<p>Description</p>	<p>It is proposed that the estimates of total economic crime in the other public sector categories of this Annex will exclude procurement fraud and other internal fraud. This section would therefore estimate the total level of procurement and other internal fraud for the entire public sector, including central and local government organisations.</p> <p>Procurement fraud is any fraud that relates to the purchasing of goods and services, including the commissioning of construction projects from 3rd parties. It may be driven by an employee or an outside party, or it may include collusion between several parties. This type of fraud can occur at any time in the procurement life-cycle, from rigging of initial bids, to false or duplicate invoicing.</p> <p>Other public sector fraud relates to any economic crime other than procurement fraud committed by an employee, including theft of cash, equipment and inventory, fraudulent expense claims, misuse of credit and fuel cards and payroll fraud.</p>
<p>Detected fraud</p>	<p>In November 2011 the Office of the Auditor General (OAG) released a report “The Cleanest Public Sector in the World”¹⁹. This report summarised the results of a survey of fraud in the New Zealand public sector, based on responses from almost 1,500 people - representing a very high response rate of 74%.</p> <p>The survey focused only on frauds committed against the internal resources of the organisations. It did not include fraud by parties attacking the tax, welfare or health systems, but it did include theft of cash and other assets and fraudulent expense claims. Such frauds were committed by employees and/or external parties.</p> <p>Similar to other fraud surveys of New Zealand organisations, the OAG survey did not explicitly ask for the total annual cost of fraud experienced by the respondents. To derive this from the report it will be necessary to make some assumptions about the level of fraud within the reported cost bands.</p> <p>This approach can only provide an indicative estimate because the average costs within bands may not accurately reflect the actual cost incurred. On this basis, our estimate of total detected internal fraud cost in the public sector is approximately \$6 million in the last year.</p>
<p>Proposed Methodology for calculating undetected economic crime</p>	<p>Internationally, there is limited information on the prevalence of procurement fraud in the public sector. [REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
<p>Overseas results</p>	<p>Based on data provided in the latest UK Annual Fraud Indicator, total procurement fraud in the UK as a percentage of total GDP was 0.25%.</p>

¹⁹ Housing New Zealand Corporation (2011), Housing New Zealand Corporation Annual Report 2010

Banking/Finance fraud

Detected fraud \$128m

Description	Types of fraudulent banking activity are as varied as the range of banking tools and products that are available. Common examples include malware and phishing scams, card skimming and credit card scams, phoney requests for bank details to access accounts and use of stolen credit cards.
Detected fraud	The New Zealand Bankers' Association provides a figure for detected fraud against banks by external parties of \$128 million for the year to September 2011. This was based on an aggregation of data from seven of New Zealand's largest trading banks, and includes fraud discovered across a range of categories, including: paper, debit card, scheme debit card, electronic, credit card, and international banking fraud.
Proposed Methodology for calculating undetected economic crime	[REDACTED]
Overseas results	Based on data provided in the latest UK Annual Fraud Indicator, total finance fraud in the UK as a percentage of total GDP was 0.09%.

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²⁰ Financial Fraud Action UK is the organisation through which the UK financial services industry co-ordinates its activity on fraud prevention <http://www.financialfraudaction.org.uk/consumer-about-ffa.asp>

Insurance fraud

Detected fraud n/a

<p>Description</p>	<p>Insurance fraud is often seen as a victimless crime where nobody personally suffers a loss. However, the reality is that insurance fraud is ultimately paid for by policy holders in the form of higher premiums.²¹</p> <p>Most insurance fraud occurs at claim time²² where a claimant knowingly submits false, multiple or exaggerated insurance claims in order to receive insurance payouts to which they are not entitled. In some cases it may involve the deliberate destruction of items or property in order to make a claim.</p> <p>For the next Cost of Economic Crime Report, the estimate of the cost of insurance fraud is expected to cover the following insurance sub-classes: dwelling, contents, motor, pleasure craft, comprehensive medical and disability, travel, health and personal accident, commercial and business interruption, liability, marine commercial and cargo, earthquake and other.</p>
<p>Detected fraud</p>	<p>No consolidated data was available for detected fraud in the insurance sector.</p>
<p>Proposed Methodology for calculating undetected economic crime</p>	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
<p>Overseas results</p>	<p>Based on data provided in the latest UK Annual Fraud Indicator, total insurance fraud in the UK as a percentage of total GDP was 0.14%.</p>



²¹ <http://icnz.org.nz/fraud/>

²² <http://icnz.org.nz/fraud/>

²³ <http://www.icnz.org.nz/fraud/news/>

Mass marketing

Estimated detected fraud **\$5m**

Description	<p>Fraud on individuals, or mass marketing fraud, is a wide ranging category that captures a variety of fraudulent activities. Examples include:</p> <ul style="list-style-type: none"> • Cold calling computer virus fraud: where members of the public are called by the fraudster posing as a computer technician or as a representative from a bank. Claiming that the victim's computer is at risk from a computer virus, the fraudster elicits sensitive information such as bank account details and passwords, or identifies information to use for other fraudulent activity. • Romance or dating fraud: where the fraudster targets users of internet dating and social networking sites, the fraudster gains the trust of the victim and solicits money directly from them to allegedly pay for travel, medical assistance or other costs, or to get the victim to carry out fraudulent or other illegal acts on their behalf. • Lottery and competition fraud: where victims are asked for a deposit or down-payment in order to receive a much larger sum of money. Fraudsters often produce realistic documentation to build the credibility of the scheme. • Online auction fraud: where goods are paid for but never received; or false websites or emails are used to perpetrate fraud against members of bona fide sites. • Investment fraud: where victims are offered the chance to invest in high value or rare items with a promise of very high returns. Either the item does not exist, or its actual value is significantly lower than the marketing suggested. • Phishing fraud: where a fraudster attempts to acquire information such as usernames, passwords, and credit card details by masquerading as a trustworthy person or entity in an email to the victim. <p>Due to a significant number of victims feeling highly embarrassed or shamed as a result of their experience, mass marketing fraud often goes unreported, making it a difficult task to estimate the total economic impact across the country.</p>
Detected Fraud	<p>Estimates of mass marketing fraud for the Cost of Economic Crime Report were provided by the Ministry of Consumer Affairs (through analysis of the ScamWatch web-site), NetSafe (through analysis of their incident reports), the Commerce Commission (fair trading rather than Commerce Act cases) and one commercial operator. Due to the self-reporting structure of the ScamWatch and NetSafe web-sites, it is likely that some incidents were reported in more than one place. However, as the detected fraud data collected from the organisations listed above provides only a small sample of total fraud in this area, no adjustment has been made for any potential double counting.</p> <p>On this basis, total detected fraud from the above sources amounts to \$5 million.</p>

<p>Proposed Methodology for calculating undetected economic crime</p>	<p>[REDACTED] an Australian Bureau of Statistics (ABS) 2007 Personal Fraud Survey²⁴. The Personal Fraud Survey was run as a module of the ABS Multi-Purpose Household Survey and achieved an 89% response rate, totalling 14,320 people.</p> <p>Based on the survey, 2.9% of the Australian population (453,000 people) were estimated to have suffered losses from fraud over the prior 12 month period, with average losses per person of A\$2,156.</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED] The 2011 UK AFI uses research from the Office of Fair Trading²⁵ to develop the estimate for mass marketing fraud. This is based on 6.5% of the adult population being victims of fraud.</p> <p>However, the UK data includes a very high level of fraud related to holiday club scams (33% of the total). While these scams also occur in New Zealand and Australia, they do not occur to anywhere near the same extent as they do in the UK. [REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
<p>Overseas results</p>	<p>Based on data provided in the latest UK Annual Fraud Indicator, total mass marketing fraud in the UK as a percentage of total GDP was 0.40%.</p>



²⁴ www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4528.0Main+Features12007?OpenDocument

²⁵ www.offt.gov.uk/shared_offt/reports/consumer_protection/oft883.pdf

Charities

Detected fraud \$15m

<p>Description</p>	<p>Fraud against charities, as with other organisations, can be perpetrated in two ways:</p> <ul style="list-style-type: none"> • Internal fraud is committed by employees or volunteers either alone or in collusion with others. Some common types of internal fraud within the charity sector include financial manipulation and accounting fraud to hide employee theft, unauthorised payments to connected parties/nepotism, employment fraud (such as fictitious employees or failure to delete leavers from the payroll), inflated management fees or expenses, theft of trustee, employee, volunteer or donor information and procurement fraud.²⁶ • External fraud is committed by persons who have no direct involvement in the charity being targeted. Some common types of external fraud include fraudulent payment instructions (such as cheque fraud and phoney foreign payment requests), bogus web-sites and phishing emails, theft of donor information, impersonation of street collectors, falsification of grant applications, and theft of funds by external partners in receipt of funds (i.e. bogus beneficiaries).²⁷ <p>Chartered accounting firm BDO regularly reports on fraud in the New Zealand and Australian not-for-profit sectors. According to its latest survey²⁸ since 2006 there has been a steady decline in the number of respondents who have suffered a fraud. However, undetected fraud remains an issue.</p> <p>In addition, organisations are increasingly identifying poor internal controls, poor segregation of duties and no mechanisms for reporting fraud as key fraud risk factors. Reliance on internal controls has been steadily decreasing since 2008 with greater reliance placed on trustworthy staff, external audit and having a good organisational culture.</p>
<p>Detected fraud</p>	<p>In the latest “BDO Not-For-Profit Fraud Survey”, 12% of respondents reported being the victim of fraud in the last two years. Although this is an Australasian survey, 58% of respondents were based in New Zealand. Based on this survey, the average fraud was approximately NZ\$11,000 and the average duration of the fraud was 14.5 months.</p> <p>For the Cost of Economic Crime Report, it was assumed that taking half of the fraud reported for the 2 years of the survey would represent an acceptable estimate for an annual cost. This assumes that 6% of charities would have detected a fraud of some type over a year, with an average cost of NZ\$11,000 per fraud. Applying these assumptions to the 22,669 charities registered with the New Zealand Charities Commission²⁹ that show gross income greater than zero over the last reporting period, results in a total detected fraud cost of \$15 million.</p>
<p>Proposed Methodology for calculating undetected economic crime</p>	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>

²⁶ UK Fraud Advisory Panel (2008), Charity Fraud Occasional Paper 01/08.

²⁷ UK Fraud Advisory Panel (2008), Charity Fraud Occasional Paper 01/08.

²⁸ BDO (2012) Not-for-Profit Fraud Survey. www.bdo.co.nz/resources/2012-not-for-profit-fraud-survey

²⁹ www.charities.govt.nz/

	<p>[Redacted text]</p>
Overseas results	Based on data provided in the latest UK Annual Fraud Indicator, total charity sector fraud in the UK as a percentage of total GDP was 0.07%.

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