



February 2015

CHO Briefing note for members of APPG Insurance and Financial Services

Date: 10 February 2015
Time: 4.30pm – 6.00pm
Venue: Committee Room 18

Topic: Insurance fraud – what progress has the industry made and are the resources being fully utilised?

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Context and summary of the problem

The National Fraud Authority estimated insurance fraud at £2.1 billion in 2012. That figure was based on data provided by the ABI and IFB. It breaks down into £1.7 billion in hidden fraud loss, £392 million in organised ‘crash for cash’ fraud, and £39 million in identified insurance fraud (where claims are paid before they have been identified as fraudulent).

In a press release issued in May 2014, the ABI reported that 59,900 fraudulent motor claims, with an aggregate value of £811 million, were detected in 2013. This figure represents 62.34% of the total value of £1.3 billion of uncovered fraudulent general insurance claims reported in the same year which, in itself, was an increase of 34% on the number uncovered in 2012. This reported increase in detection suggests that insurers may be getting better at spotting fraud earlier or that the detection rate remains the same and fraudulent claims are still increasing at a rapid rate.

Fraudulent/exaggerated claims represent an important problem in insurance markets, the costs of which pass through by way of increased premiums to all policyholders. As well as being of a high magnitude, the complexity of insurance fraud makes detection difficult; the discovery of one ‘scam’ often leads to more aggressive and effective counter measures from the offender especially where the fraud is part of an organised campaign.

The members of The CHO are routinely impacted by insurance fraud and they have raised with the APPGIFS chairman a frustration that IFED will not investigate a fraud case unless that case is referred by a paying insurer. This means that insurers now have a dedicated private police force (always denied by IFED) and that, as a consequence, there is an impact on the non-insurer victims



of insurance fraud. Bus companies, self-insured fleets and any entity which insures its fleet with a high policy excess, such as a credit hire company, can face the same issues, although credit hire companies are easier for criminals to target as a basis for a fraudulent insurance claim with more lucrative assets at risk.

Key points

- There has been a change in the ability of victims to access justice post the formation of IFED.
- Eight years ago Accident Exchange, a leading CHO, worked with the Metropolitan Police on one of the first high profile insurance fraud cases (Masi Naqshbandhi). Evidence from telematics devices in the cars hired by Naqshbandhi together with further documentary evidence found in hire vehicles recovered from the gang when the fraud was suspected, were pivotal in the police case which ultimately led to Naqshbandhi being sentenced to eight years in prison.
- Post the formation of IFED, Accident Exchange experiences significant resistance in respect of similar cases. The difference appears to be the role of the City of London Police as the national lead on fraud and the creation of IFED and the effect that has had on other forces appetite for investigating this type of crime.
- In the connected world occupied by fraudsters, police forces would work together across boundaries. This rarely happens. Locally elected Police and Crime Commissioners set their local force priorities based on local funding constraints and insurance fraud does not feature in any of the provincial police forces as a priority. In addition, local forces have resource constraints and will not work across force boundaries where the result will be a reduction in a neighbouring force's crime statistics at their expense.
- CHCs are often advised by local forces to refer identified cases of insurance fraud to IFED, but IFED will not tackle anything other than those cases referred by an insurer that funds them. In the FAQ section of their website, and in answer to the question: "How do I refer a case to IFED?" the answer states:

"Insurers can report cases that meet the acceptance criteria to IFED via their industry representative (SPOC) by completing a referral form. Cases can also be referred via the Insurance Fraud Bureau (IFB) – [also funded by the ABI] - or by regional police forces."

- IFED goes on to note that: "[Regional] forces will take on insurance cases if it falls within their case acceptance criteria and they have the resources



to manage it; other forces will still accept cases of insurance fraud for investigation.”

- Regrettably, that is not the case in practice. Regional forces do not take on cases for the reasons stated above. CHOs find themselves in a cleft stick, even with cases where the perpetrators are caught bang to rights. Criminals not only have carte blanche to re-offend, but, in reducing the detection opportunity, IFED inadvertently increases the propensity for insurance fraud.

The Government has become increasingly focused on fraud, perhaps responding to public concern, but there is still not enough resource committed. More importantly the existence of a private police force (IFED) acts to the detriment of those non-ABI victims and has created an environment where organised crime can grow with little consequence for the fraudsters.

Case study (provided by APU Ltd, a subsidiary of Automotive and Insurance Solutions Group plc and a sister company of Accident Exchange Ltd).

About APU Ltd

APU's role is to protect a fleet of about 3,000 vehicles, and to carry out Road Traffic Collision (RTC) and motor insurance fraud related investigations. The vast majority of the 20-strong team are ex-police officers and insurance investigators. All of the investigation staff have been accredited by the Association of British Investigators.

The business has equipped its rental fleet with telematics devices. These allow for triggers to be raised where a hire car may be utilised in unusual circumstances and act as a second line of defence against potential fraudsters.

APU has been involved in a number of investigations with the police and other law enforcement agencies nationally, from the high profile Naqshbandi case to several others, even including an attempted murder in Glasgow, where APU's evidence helped convict a man responsible for slashing his friend's throat and leaving him for dead, and a murder in London where the hire car was used as part of an extortion racket involving Tamil separatists.

APU engage on an almost daily basis with the police service but the reaction is rarely reciprocal. They do, however, have an information sharing protocol with Merseyside Police, which has already resulted in organised crime being disrupted.

Case study

This case – which is ongoing and therefore anonymous - highlights the difficulty the APU team has in helping in the prosecution of serial fraudsters for offences where there is evidence of fraud and organised crime. It serves as a comparator to the case of Masi Naqshbandhi which was prosecuted before the formation of IFED.

The offender in this more recent case has a history of involvement with the police. He will use a variety of different means to perpetrate his fraud and works with associates. Typically, he will insure two vehicles he has seen advertised on the internet. He does not, and never will, own either vehicle. He will take out insurance in both vehicles, paying, APU believes, with a stolen or cloned payment card.

Insurance policies will be issued by unsuspecting insurance companies in false names, at the home addresses of innocent members of the public. He does this so that when he reports his involvement in an accident (in a car that he does not own) the third party is unconnected to him but always confirmed by the insurer as being insured at the time of the accident.

One of those innocent members of the public that APU spoke to is rightly concerned that they are receiving chase-up letters for insurance policies they have no knowledge of in respect of cars they do not own and accidents they have had no involvement in.

Meanwhile the offender approaches a credit hire company and, with the use of forged identity documents, is subsequently hired a motor vehicle which he then steals and disposes of.

APU is aware of this man being linked to more than £250k worth of vehicle thefts over a two-year period. Due to the value of these vehicles APU suspects links to organised crime in Europe.

Experience with these types of crimes is that it is difficult for individual officers and even forces to link them due to cross border issues and therefore they are often filed at source, which level 2 (cross border) criminals know and exploit.

APU shared the intelligence with IFB and IFED hoping that IFED could offer the professional investigation tools, including tracing the source of the initial payment for the insurance policies to try and identify and disrupt the offender.

In a verbal response IFED said that this didn't strike them as insurance fraud but that, in any event, unless it was reported to them by an ABI insurer they could not investigate.



Some insurers consider that exaggerating a claim constitutes fraud, whilst others are more concerned with classes of systematic fraudulent activity such as staged accidents, relying on false documents and misrepresentation of information at the proposal stage. The problem of defining what constitutes fraud, therefore, appears to make the objective of implementing a uniform reporting methodology unlikely and the task of tackling insurance fraud more difficult because of the difficulty in determining at what level to focus anti-fraud measures.

In APU's opinion this has a clear link to insurance fraud due to the inception of false insurance policies and the reporting of fictitious accidents in order to commit crime.

With no other option available, APU conducted a staged delivery to the fraudster where he was arrested trying to take delivery of the hire car. At the time he was in possession of forged identification documents. He was dealt with by local police officers who we believe tried to ask IFED to assist as it was not a local priority for them and their resources were focused on other local concerns.

To the best of APU's knowledge no assistance was forthcoming from IFED either on the night of the arrest or since. Despite the arrest the fraudster continued to offend and APU subsequently arranged another staged delivery where he was arrested again in a different police area. At that time he was also in possession of a new set of fake ID documents.

The offender has been on police bail for 12 months now but no charges have yet ensued. In fact the offender has had his requirement to answer the charges postponed on a number of occasions because the investigating officer is focused on other priorities.

APU believes there is a dedicated and very capable resource that could have swiftly brought this man to justice. Even after the second arrest he continued to target the credit hire industry and the APU team had to reassure concerned residents who have been caught up in serial offenders' activities, in all parts of the country, that their personal details were safe, whilst also trying to reassure them that the offender would be brought to justice.

APU investigators are committed to trying to bring offenders like this to justice. However, we face a difficult challenge where local officers cannot easily tackle cross border crime and where IFED will not accept referrals or intelligence from us, even after the local police have the offender in custody, and we have provided them with sufficient evidence to support a charge.

This man, and others like him, are not opportunists, APU describes them as career criminals who target vulnerable innocent people, use their identities and will continue to operate unless they are tackled at a National co-ordinated level. This man is still at large



Issues and remedies:

- The lack of interaction between the Police and those reporting insurance fraud (other than the ABI);
- The marketing of IFED as the national lead on insurance fraud without IFED actually delivering the leadership necessary for other forces receiving reports of insurance fraud;
- The inability to appreciate the difference between a cash for crash opportunist and a serial offender probably linked to organised crime, based solely on who reports the offences;
- The perception that IFED are controlled by insurers to satisfy commercial objectives rather than to take a holistic approach to addressing the wider problem.

To resolve the problem the CHO urges the APPGIFS to:

- Sponsor dialogue with the CHO, City of London police and the ABI to find a way to engage, react to intelligence (not just receive it) and deal with insurance fraud from whatever the source. We need a proper mechanism to see cut and dried cases through to conviction.
- Urge the Insurance Fraud taskforce – Chaired by David Hertzell and sponsored by HMT and MoJ - to tackle this issue under their terms of reference.
- Review the process by which IFED was created. Was the Government aware of the consequence IFED's creation would have on the incidence of insurance fraud and its detection?

About the Credit Hire Organisation (CHO)

The CHO is a trade body with 66 members that represents the interests of Credit Hire Companies (CHCs).

CHCs provide temporary replacement vehicles (TRVs) to non-fault parties following road traffic accidents. The industry employs thousands of people all over the UK, and our members are dedicated to providing customers with high quality service, as well as ensuring their rights are upheld in the unfortunate event of their vehicle being off the road. Customers' rights to a replacement vehicle were upheld by the Competition and Markets Authority report last year.

CHO member companies have had to deal with criminal activity against them, and the cost of crime – in both stolen assets and the time/cost of investigation, is



substantial. CHO members work closely with the police, where we can, and the CHO is determined to work with all stakeholders to reduce the incidence of motor insurance fraud.

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