



SYNECTICS
SOLUTIONS

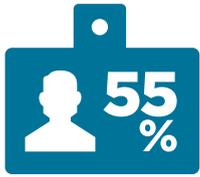
Fraud Trends Report 2016

Find out what it means for
Financial Services and Insurance

Leveraging the value of the intelligence provided by the National SIRA database

We're delighted to share our unique insight into activity across both the insurance and finance sectors of the National SIRA database for 2016. The Synectics Financial Crime Intelligence Team has been working hard to keep all of our SIRA members and the wider banking and insurance community up-to-date with the latest analysis. We're delighted to present this updated view of the different fraud typologies that current members have been experiencing as part of their investigative process when using SIRA.

Finance Fraud 2016



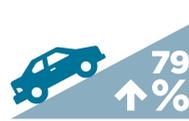
55% of all national adverse found in 2016 is Identity fraud



Current Accounts remain the most targeted product for fraudsters with 204 in every 10,000 Current Account application marked as fraud in 2016, up from 194 in 10,000 in 2015



The fraud rate for Basic Bank Accounts increased by 77% compared to 2015 with Application and Identity Fraud featuring heavily



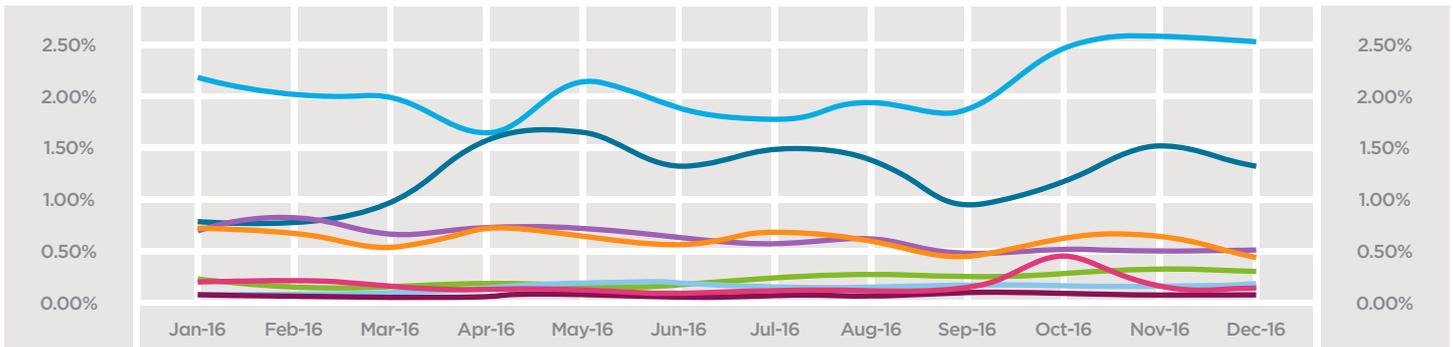
79% increase in the volume of Car Finance / Hire Purchase Applications set to adverse in 2016



Volume of Mortgage adverse increased by 17.58% compared to 2015

Overall there was a **30% increase** in submission volumes to Finance National SIRA in 2016

Finance Product Fraud Rates



The overall fraud rate for 2016 has remained relatively consistent with 2015. As with 2015, current accounts were the product of choice for financial services fraudsters, with an overall fraud rate of 2%, whilst the overall fraud rate for basic bank account increased by 77% to finish at 1.2% for the year.

Aggregate Fraud Reasons



In 2016 there were notable increases in the volume of records set to adverse against all products submitted to National SIRA. Misuse of Account fraud increased by 56.46%, Application fraud increased by 28.50% and Identity fraud increased by 8.48%.

In terms of fraud distribution, Identity fraud accounted for over half of recorded adverse, 55%, with current address impersonation now the most prevalent impersonation method used.

The finance industry should also note that current address impersonation methods are now being used to fraudulently obtain motor insurance policies.



Focus on Basic Bank Accounts

Submission volumes increased by 26.10% in 2016 whilst the volume of applications set to adverse increased by 123.30%. This is most likely as a result of the introduction of the EU Directive and a tightening up within application validation to meet the increased activity and the potential fraud threat. The cumulative effect of this increased focus led to an annual fraud rate of 1.2%, up from 0.7% in 2015.

This increased focus at application stage seems to be evidenced by the increases in the volumes of adverse set for Application Fraud, which increased by 325.41%, and Identity Fraud which increased by 355.08%. Misuse of account fraud remained relatively unchanged. The impact of this focus is also seen within the fraud distribution, with Identity Fraud and Application Fraud accounting for 85% of the overall fraud population in 2016.



In terms of most prevalent fraud reasons false documents, false residential status, current address impersonation and account used to receive fraudulent or disputed funds feature heavily.

Focus on Car Finance & Hire Purchase



2016 saw significant growth in the Car Finance and Hire Purchase data set held within SIRA.

Submission volumes increased by 259.95% in 2016 whilst the volume of applications set to adverse increased by 78.70%.

In terms of aggregate fraud reasons, Application fraud increased by 79.96% and Identity fraud increased by 202.22% in the volumes of records set to adverse. Within Application fraud, which accounted for 87% of all fraud, undisclosed address with adverse accounted for 68% of records, with conflicting address history accounting for a further 18%. Where Identity fraud was concerned the main fraud reason was current address impersonation, accounting for 55% of the Identity fraud set.

Focus on Current Accounts

Submission volumes increased by 9.48% in 2016 with the volume of applications set to adverse increasing by 14.57%. The cumulative effect of this being that the fraud rate on current accounts continues to increase year on year, standing at 2.04% for 2016 compared to 1.94% for 2015 and 1.21% for 2014.

In terms of aggregate fraud reasons, the overall distribution by fraud type changed very little between 2015 and 2016 but there were notable increases in the volumes of records set to adverse including;

- + Application Fraud increasing by 30.93%
- + Identity fraud increasing by 17.80%
- + Misuse of facility increasing by 24.20%



Within Application fraud undisclosed address with adverse accounted for 34% followed by 27% set due to concerns validating proof of identification documents.

Insurance Fraud 2016



40% growth in insurance records submitted to National SIRA with a **76%** increase in motor insurance claims records and **41%** increase in motor insurance policy records volumes submitted in 2016



56% increase in insurance records set to adverse in 2016



50% of Insurance claims frauds linked to organised fraud



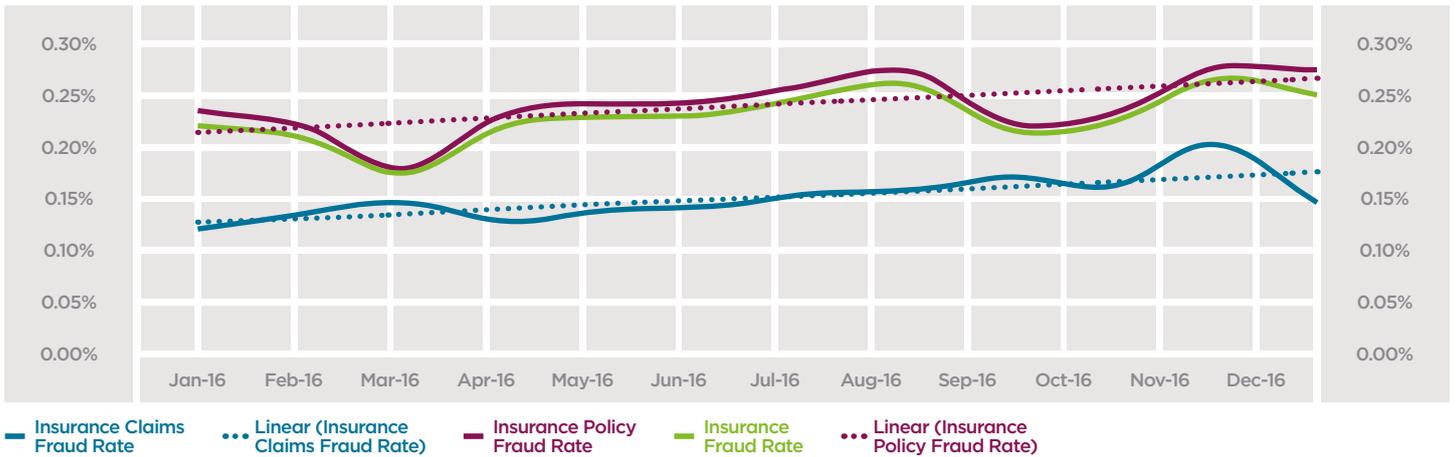
Staged and induced accidents accounted for **29%** of insurance claims fraud detected in 2016



Current address impersonation fraud increased significantly against motor insurance policies in 2016 as fraudster attempt to bypass validation checks on just the policy holder

2016 saw significant increases in the volume of submitted insurance enquiries added to SIRA. The overall increase was 39.92% compared to 2015 and was underpinned by a 40.38% increase in house insurance claims, 75.86% increase in motor insurance claims and 41.02% increase in motor policies.

Insurance Fraud Rates 2016



Fraud Rates

Overall there was a 11.4% increase in insurance records set to adverse in 2016 over 2015 mainly driven by increases in claims set to adverse. During 2016 there was a 154.6% increase for House insurance claims and 340% increase in motor insurance claim records set to adverse.

Focus on Motor Policy Fraud

Inception fraud accounted for 68% of motor insurance policy fraud during 2016 with adverse set for bogus intermediary or linked to known adverse accounting for 22.10% of Inception fraud. A further 15% was related to Documentation fraud where 78.6% was a result of non-provision of requested documents, no reply to or failed validation fraud concerns.

Although the volumes set to adverse is currently low, one of the largest percentage increases in volumes set to adverse relates to Identity fraud and in particular current address impersonation fraud. As a new method adopted by the fraudster early in 2016 in order to circumvent policy holder validation the number of adverse set increased considerably from mid-year. In order to counter this threat, consideration should be given to the validation of all drivers that are included in a policy proposal.



Motor Policy Impersonation Fraud MO



Insurance Impersonation MO usually involves the use of an individual's identity and address to incept a policy without their knowledge or consent. The individual will have no knowledge of the vehicle that is being insured.

It is strongly recommended that Insurers conduct robust due diligence checks for all individuals associated to a policy and that the general public are mindful of protecting their data to ensure that it is not used inappropriately.

Focus on Motor Claims Fraud

Within the claims adverse population, Staged Incident fraud is now the most commonly prevailing typology in 2016, now accounting for 22% of Claims fraud. This coupled with Induced Incident fraud, accounting for 7%, means that both these fraud typologies now account for 3 out of every 10 adverse claims.

Inception fraud, the most common fraud typology in 2015, now stands at 19% of the motor insurance claims adverse, a fall of 43%. Not surprising with more emphasis placed at policy inception stage and the increased use of Real-Time Quote (RTQ). The other fraud typology to feature is Fictitious and Phantom fraud, strongly associated with Staged and Induced Incident fraud and Organised fraud activity. This now stands at 17% of adverse claims, an increase of 27% over 2015. Perhaps not a surprising increase as it falls in line with the increase in Staged and Induced Incident fraud is part of the fraudster attempt to maximise their gains from the claims made.



Opportunist v Organised Insurance Fraud

Overall there was an 93.38% increase in Third Party fraud, mainly underpinned by an 84.29% increase in fraud where motor insurance policy is concerned.

The main drivers creating such an increase are bogus intermediary fraud, representing 14.5% of all motor insurance policy inception frauds. Staged and Induced accidents accounted for 28.67% of motor insurance claims fraud. The shift also includes the emerging trend of current address impersonation, with only nine cases recorded in the first half of 2016 and 2357 in the second half of the year.

