



Australian Government

Australian Institute of Criminology

# Risks and responses to fraud in Australia

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## Outline

### The current fraud risk environment

- Drivers of change in the 21<sup>st</sup> century
- The effects of the global financial crisis

### The extent of the problem

- Consumer scams in Australia
- International identity fraud
- Australian fraud trends
- Plastic card fraud trends

### Responding to fraud

- Assessing levels of risk and applying principles of crime prevention
- Policy solutions
- Payment card solutions
- Education and research



# Drivers of change in the 21<sup>st</sup> century

## Technological development

- Integration of technology into personal and professional life
- Increasing use of broadband and wireless technologies
- New methods of identification and verification
- New payment systems – SVCs, e-cash, contactless payment terminals
- Developments in cloud computing

## Changing government services

- Increasing use of ICT in providing government services (passports, tax)
- Development of new government programs (e.g. emissions trading, home insulation, school building, welfare, health, transport, voting)

## Globalisation

- Increasing risks from the new economies of China and India
- Impact of the global financial crisis



## The effects of the global financial crisis

Fraud driver	Increased risk	Reduced risk
Availability of opportunities and suitable targets	<ul style="list-style-type: none"><li>• Availability of government payments / professionals willing to create secrecy vehicles and / or falsify documentation</li></ul>	<ul style="list-style-type: none"><li>• Potential fraudsters who lose jobs</li><li>• Reduced income / assets in business</li><li>• Reduced capacity to lend</li></ul>
The presence of suitably motivated individuals	<ul style="list-style-type: none"><li>• Perceived need to maintain failing businesses</li><li>• Perceived need to maintain lifestyle</li></ul>	<ul style="list-style-type: none"><li>• Acceptability of business failure and / or reduced lifestyle in times of recession</li></ul>
The absence of capable guardians	<ul style="list-style-type: none"><li>• Pre-existing frauds detected following reduced inflow of sustaining funds (e.g. Ponzis)</li><li>• Perceptions that law enforcement and regulators are over-stretched</li></ul>	<ul style="list-style-type: none"><li>• Increased learning from other countries' experiences</li><li>• Increased internal controls on lending and transactions</li><li>• Increased awareness of risk, surveillance and early intervention by regulators</li></ul>



# Scam risk environment in Australia

## Australian Bureau of Statistics personal fraud survey

- 14,320 individuals, 15 years or older, participated in interviews

### Time frame

- In field July to December 2007
- Asked about experiences during period 1 July 2006 to 30 June 2007

### Scope

- *Exposure to scams* – receiving, viewing or reading material
- *Extent of victimisation* – supplying information or money
- *Financial loss suffered* – money supplied without recovery

### Definitions

- **Scam:** *a fraudulent invitation, request, notification or offer designed to obtain someone's personal information or money or otherwise obtain a financial benefit by deceptive means*

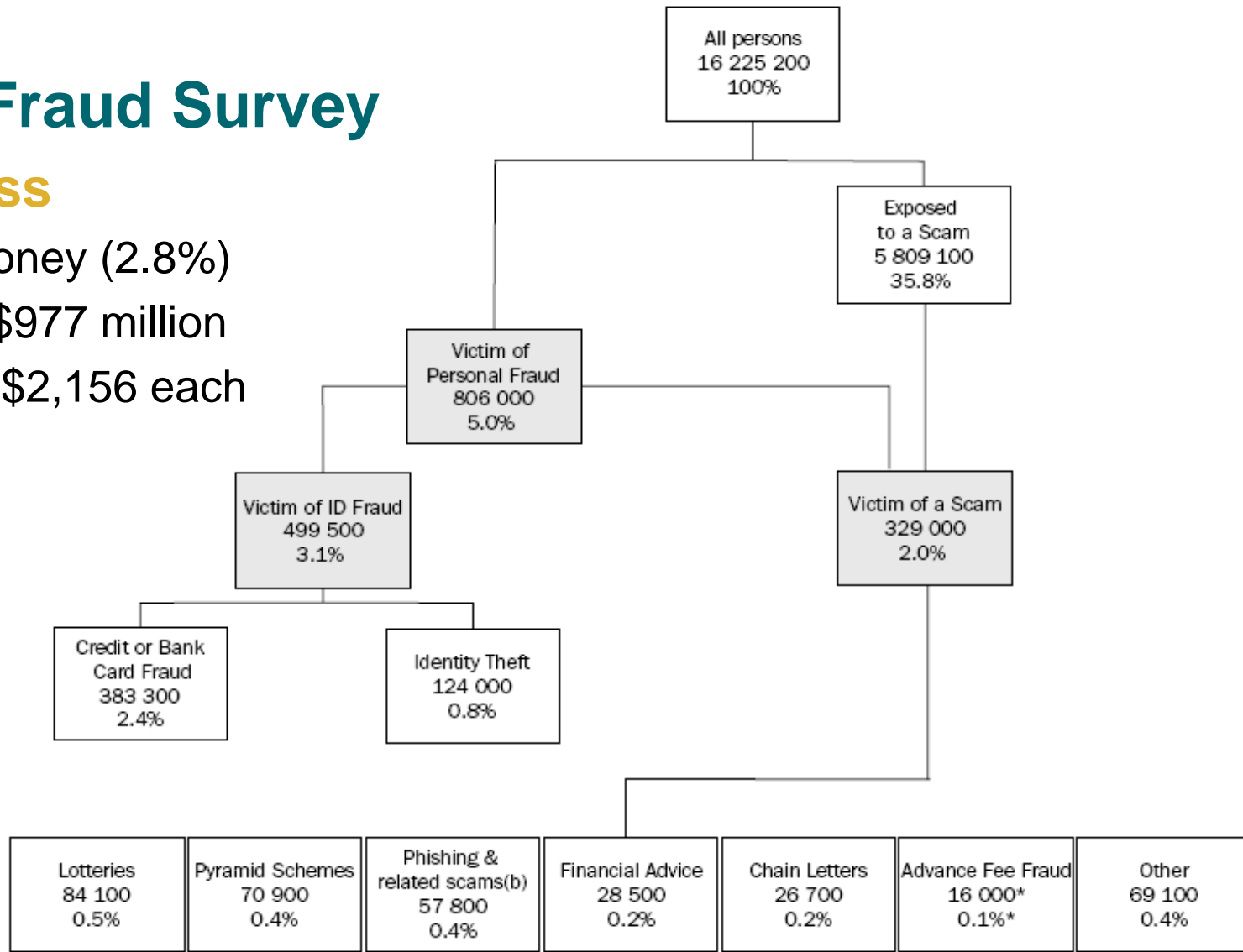


# Personal Fraud Survey

## Financial loss

453,100 lost money (2.8%)

- Total losses: \$977 million
- Mean losses: \$2,156 each





## International fraud estimates

### **USA—ACFE *Report to the Nation*** (1,843 fraud cases 2008-09)

- Mean loss of 5% of revenue, median cost US\$160,000

### **Canada—Public Safety & Emergency Preparedness 2002**

- Can\$2.5 billion lost to identity theft in 2002

### **UK—Cyber Source Online Fraud Survey 2009** (150 merchants)

- 13% of merchants lost 5% of online revenue to fraud

### **Australia**

- All fraud \$8.5 billion (AIC 2005), Identity fraud \$1.1 billion (SIRCA 2002)
- Organised crime \$10-15 billion (ACC 2010)

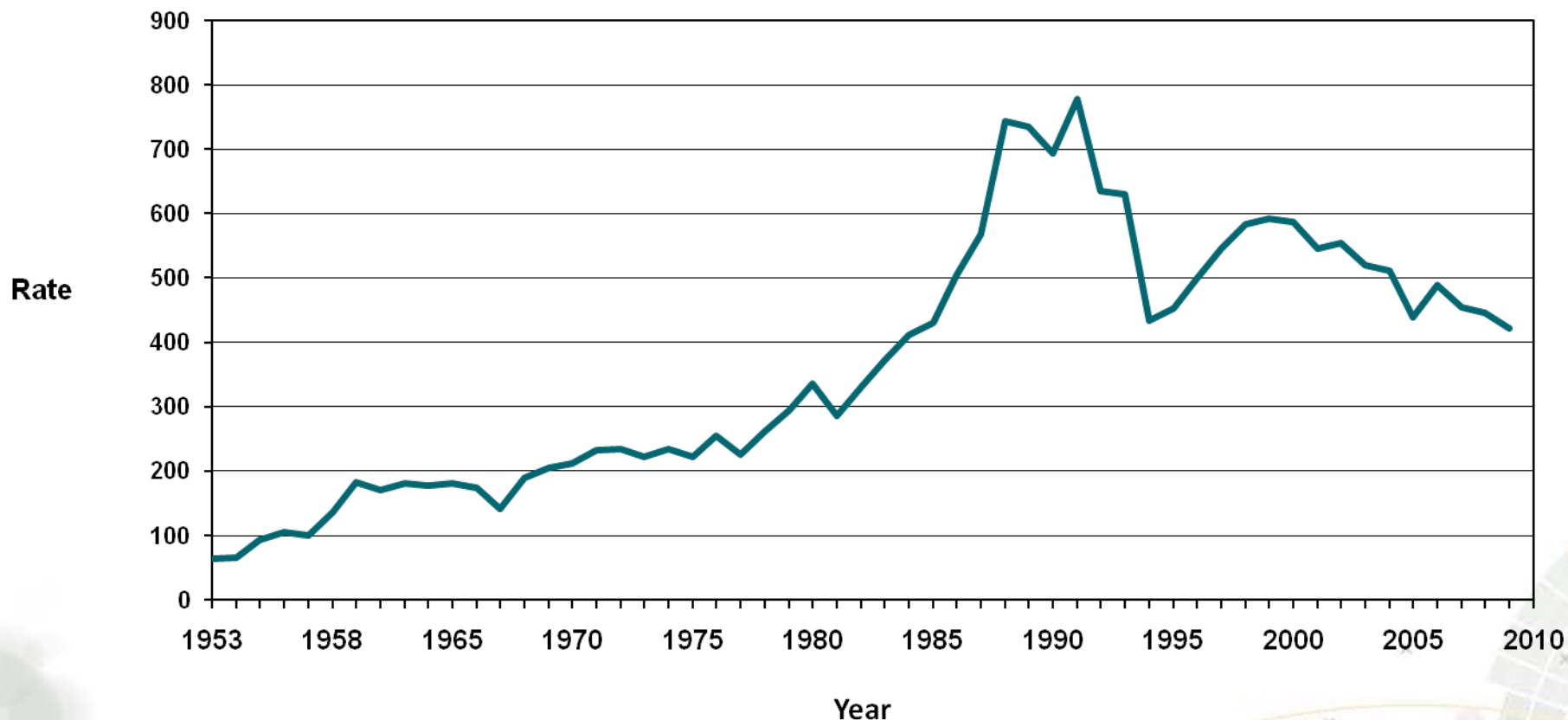
### **Aust & NZ—KPMG Fraud Survey 2010** (214 organisations)

- 174,914 incidents of fraud from 2008-10 worth \$345.4 million
- Respondents believed that only one third of losses are detected



# Official Australian fraud statistics

Rate per 100,000 popn, recorded by Australian police (1953/54 - 2008/09)

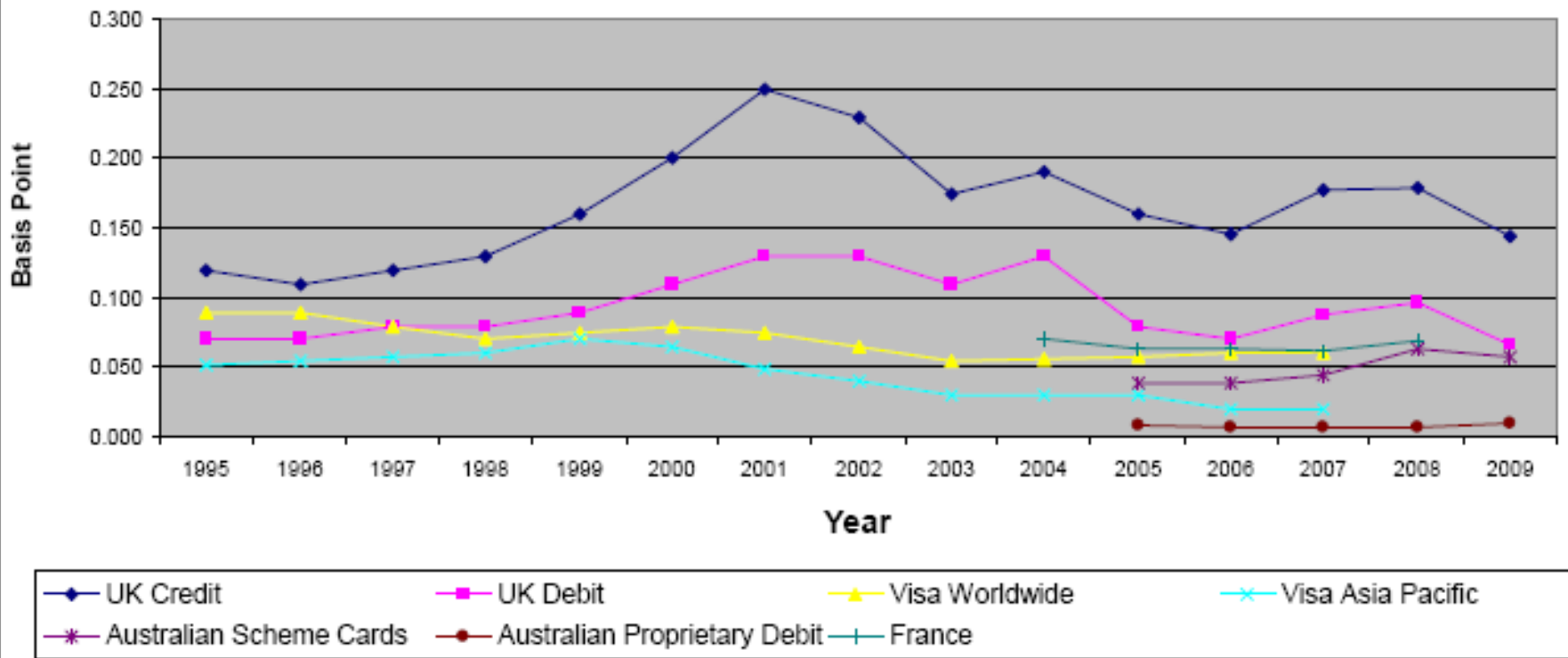






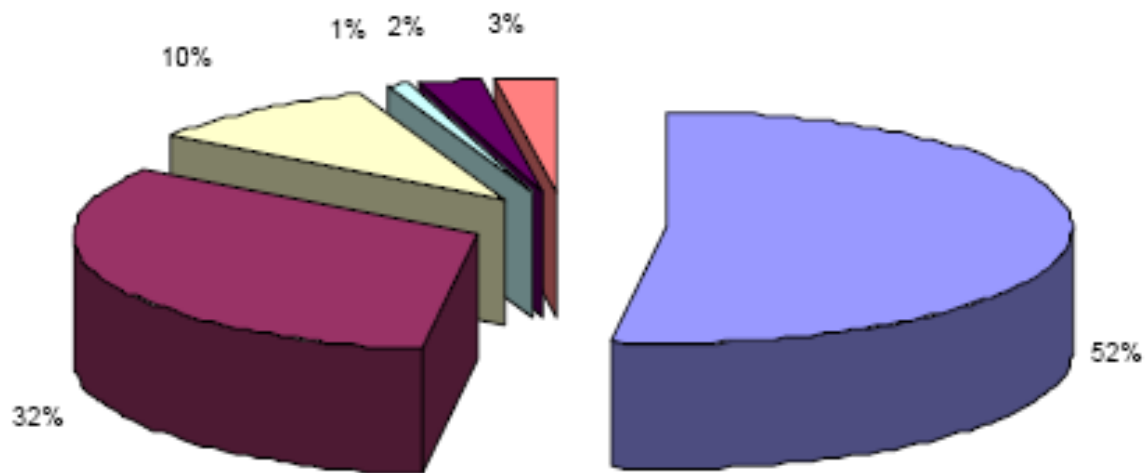
# Plastic card fraud trends

## Plastic card fraud for selected countries (% fraudulent transactions)





## Australian plastic card fraud by type 2009



■ CNP ■ Counterfeit ■ Lost/Stolen ■ Fraudulent Application ■ Never Received ■ Other



# Australian Payments Clearing Association

## Card-not-present fraudulent transactions 2006-09

Category	2006-07		2007-08		2008-09		change 2006/09	
	No	A\$	No	A\$	No	A\$	No	A\$
Aust cards	150,646	39,959,984	220,053	63,491,661	332,396	82,162,968	121%	106%
o/s cards	47,795	16,552,405	79,929	25,131,480	110,065	28,337,731	130%	71%
Total	198,441	56,512,389	287,896	88,623,141	442,461	110,500,699	123%	96%

*Aust cards* - Credit card and charge card fraud perpetrated in Australia or overseas on Australian-issued cards

*o/s cards* - Fraud perpetrated in Australia on cards issued overseas

NB – 2006-07 to 2008-09 total number of credit/charge card transactions increased 17%  
2006-07 to 2008-09 total number of fraudulent credit/charge card transactions increased 88%



# Australian Payments Clearing Association

## Counterfeit / skimming transactions 2006-09

Category	2006-07		2007-08		2008-09		change 2006/09	
	No	A\$	No	A\$	No	A\$	No	A\$
Aust cards	43,844	26,833,727	68,206	42,836,215	72,452	45,163,953	65%	68%
o/s cards	82,110	39,972,184	163,719	67,283,231	169,698	65,602,302	107%	64%
Total	125,954	66,805,911	231,925	110,119,446	242,150	110,766,255	92%	66%

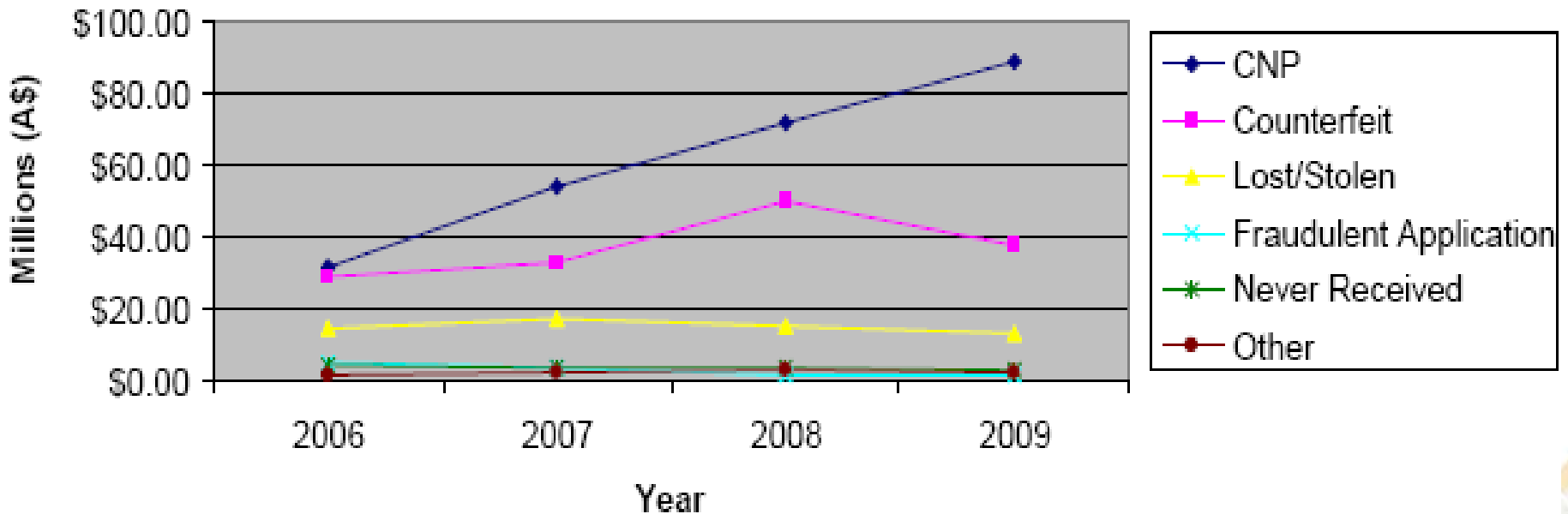
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## Australian credit and charge card fraud by type





# Perpetrators of Fraud

## Employment status

- 65% internal fraud (96% of value by managers) (KPMG 2010)

## Fraud profile

- A non-management employee of the victim organisation
- No known history of dishonesty
- Male, aged 38 years, acting alone, earning A\$113,000 per annum
- Employed by the organisation for a period of 5 years
- Has held his current position for 3 years at the time of detection
- Motivated by greed
- Misappropriation of cash to an average value of A\$229,000
- Detected by the organisation's internal controls 12 months after the commencement of the fraud
- Organisation recovers 9% of the proceeds of the fraud (KPMG 2010)



## Responding to fraud

### Assessing levels of risk

- Total fraud losses in excess of A\$6 billion in Australia
- 1 in 20 household users victimised by scams or identity fraud in 2008
- 0.02% of credit/charge card transactions fraudulent, 2008-09 (APCA)

### Increasing the effort required to offend

- Card security, CVC, computer security, improved user authentication, biometrics, customer education to avoid risky behaviours

### Increasing the risk of apprehension

- Real-time transaction monitoring, notification and blocking, data-sharing, data matching, verification of evidence of identity

### Reducing the rewards of offending

- Harmonisation of laws across jurisdictions, skimming and identity crime offences, enhanced sanctions, unexplained wealth laws, confiscation of the proceeds of crime, anti-organised crime measures



## Policy solutions

### Information

- Sharing information between agencies (*Document Verification System*)
- Minimising risks of data leakage from public and private sectors

### Legislation

- Criminalisation of identity fraud and possession of carding equipment
- Proscription of organised crime groups
- Anti-money laundering and unexplained wealth laws

### Law enforcement

- Enhanced liaison between government and law enforcement
- Increased resources for Task Forces leading to increase arrests

### Victim support

- Improving victim support – reporting, loss recovery, counselling
- Identity fraud court victimisation certificates





## Payment card solutions

### Card policies and fraud prevention advice

- Fraud protection guidelines for merchants
- Industry merchant education program
- Protect Your PIN Campaign
- Extension of fraud analysis tools to debit cards
- New fraud risk centre of excellence

### Card security, verification and monitoring

- Chip/PIN credit card roll-out
- Anti-skimming devices on ATMs and readers
- Liquid encryption number (LEN) technology
- Additional controls on POS terminals by high risk merchants
- Online transaction monitoring, notification and blocking
- Biometric user authentication systems



# AUSTRALASIAN **CONSUMER FRAUD** TASKFORCE

AN INITIATIVE OF THE STATE, TERRITORY AND  
AUSTRALIAN AND NEW ZEALAND GOVERNMENTS

## **Education and research** **Consumer protection**

- Australasian Consumer Fraud Taskforce
- Attorney-General's Department identity fraud prevention kit
- Enhanced training of users to maintain computers adequately
- Computer driving licence
- Enhanced training of users to avoid risky behaviours

## **Research and statistics**

- Standardisation of terminology for fraud and identity crime
- National victimisation surveys (replication of 2008 survey)
- Coordinated data collection amongst:
  - law enforcement agencies
  - fair trading / consumer protection agencies
  - private sector organisations (e.g. payment fraud data)
  - government agencies' experience of fraud



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