

The House Believes Fraud will never be Beaten

Financial Services Club: Annual Debate, 8 January 2007, Lloyds of London



The Financial Services Club

Introduction

The theme of the Financial Services Club is the future of industry. The club is sponsored by Invest Northern Ireland, Sun Microsystems, Fujitsu, Satyam and Adobe. Swift recently joined the club as an important partner. The club runs open forums with presentations followed by debates, and closed forums. The club meets twice a month to discuss issues covering all areas of the financial markets, retail and investment banking, capital markets, insurance and brokerage. A monthly keynote address is given by an industry practitioner, government policymaker or regulator. Membership is open to all.

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Proposer - Nick Kochan, author and Journalist

"Rather than ignoring fraud, we should face up to the damage that it does to our society. We should strengthen our corporate protections and controls, encourage the authorities to keep the problem at bay, but our compliance and anti-fraud services will be employed for a long time to come."

The proposer argued that that fraud is eternal, has always been with us, and is subject to human needs and desires. He proposed that, although fraud takes many forms, it is attractive because humans are greedy, simply because it is hard to become rich so people look for an easier way.

There is no specific crime called fraud, so defining fraud can be tricky too. Business executives can backdate options, for example. This can sometimes be called 'clever accounting' or 'good business practice' rather than fraud.

As for why it happens, society and the economy draw the greedy towards fraud and those engaged in business are encouraged to be acquisitive, said the proposer. Also, government is reluctant to fight it, even though fraud such as stealing people's identities is today's most prevalent fraud and has real victims.

Governments put large sums of money into fighting large and organised crime, offences with high political profiles, yet fraud is ignored. Consequently, as fighting fraud takes large amounts of training and intelligence, police forces resent its lack of prioritisation.

To believe fraud that will ever be beaten is naïve, argued the proposer, so we should face up to the damage it does to society by strengthening corporate protections and controls, and encourage the authorities to take the problem seriously.

Opposer - Stephen Edwards, MBE, Serious Organised Crime Agency (SOCA)

"William James said that the greatest discovery of our generation is that we can achieve anything simply by changing our attitude and mind."

The opposing speaker argued that fraud cannot be eliminated completely. That is especially the case now that a large element of today's frauds are conducted over the Internet, which has had a phenomenal impact on the world -- including crime.

Attitudes have changed markedly from early online days, and now governments and other bodies focus more on this problem, he argued. Evidence includes the government's successful emphasis on innovative programmes aimed at making the world a more hostile place for criminals, bringing together public and private sectors in a so-called multi-agency approach.

As an example, cars and their contents are more secure now than ever, thanks to better technology and awareness. Similarly, burglary rates are down because householders, landlords, builders and councils have worked to make buildings much safer. Factories, shops and offices are more secure too, with protective measures leading to a fall in occurrences. In both these examples, falling crime rates are impressive when measured against increasing attempts to commit these crimes.

Less successful have been attempts to stem assault, street robberies, drug offences and homicide, where there has been less opportunity either for a multi-agency involvement, or for technological, mechanical or systematic solutions. These crime rates have not fallen.

The opposer said that public perceptions are important too. While bad news always sells, evidence shows that working co-operatively can make a huge difference and offers grounds for optimism. There is circumstantial evidence that public perceptions may be improving as a result.

Ultimately, winning against fraud needs a change of attitude, and an acceptance on behalf of everyone of both responsibility and opportunity to make the necessary changes. Without the belief that things can change, failure will result.

Discussion

"To put cyber crime in the context of evolutionarily fighting crime, it is still in its early days and being improved."

Discussion took the form of a question and answer session.

I. Fraud and the Political System

The opposer was asked how fraud could be 'designed out' from, for example, selling lordships for political advantage. The response was that eradicating fraud may not be possible as political funding naturally attracts fraudsters as well as generous donors.

II The Reclassification of Fraud

One questioner asked how the successful fall in burglary crime may lead to criminals moving into other areas, and asked if the classification of fraud would change. The opposer explained that a fall in fraud has been evident despite the widening of its definition.

III. Global Fraud

But could this mean that more fraud than ever occurs but we are less able to detect it, asked one questioner, arguing that while human frailty exists, fraud is uncontrollable. While the proposer agreed, the opposer said the questioner should take global fraud into account rather than just white collar deception for acquisitive ends.

IV. A Cooperative Approach

The opposer explained that that it was possible to 'design out' crime. However, it is not vanishing although a co-operative approach helps reduce it. He pointed out that many industries did not previously report frauds for fear of risking their reputations. SOCA still support the concept of a confidential relationship with Industry and that a close involvement in the investigation and prosecution process is still necessary to ensure confidence and the continued growth of an excellent relationship with the private sector. Meanwhile, governments were not keen to spend money on private-public co-operation areas such as money laundering, said the proposer.

V. Chip and PIN Fraud

One participant pointed out that, with Chip and PIN fraud, 'card not present' fraud has increased, leading him to question the business case for a cardholder to accept more vigorous controls and be inconvenienced when there was no risk to him. The opposer said that the displacement factor with 'card not present' fraud occurred because it was more difficult to commit fraud with a card, noting that Chip and PIN was, overall, a success.

VI. Prioritising Fraud

The opposer was asked about the political difficulty of elevating the priority of fraud. He responded that fighting fraud is not always a high manifesto priority when it comes to winning votes.

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"If reported and recorded, fraud would be the biggest crime issue in the country."

"85% of fraud is instigated or reported by internal employee activities."

VII. The Role of the Public

A questioner asked how one could limit identity theft, and how members of the public could help. The opposer agreed that users needed protecting, especially in a world with online banking. He said this was a perceived minefield, and that people look for maximum protection with minimum fuss.

VIII. The Role of Law Enforcement

The proposer and opposer discussed whether fraud was beyond the purview of law enforcement, as the private sector protects or compensates its customers, and then passes on the cost of fraud to its customers. Given the rate of increase in frauds, could law enforcers not do more, the proposer asked. The opposer explained that mainly law enforcement investigated crimes but could not prevent them; public perception is that it is the police's responsibility to stop crime AND prevent it.

One participant said he campaigned to change the police's attitude towards fraud, following fraud victims having been told that instances of fraud would not be investigated. This skews the statistics and causes under-reporting of fraud, argued the questioner. If all instances were reported and recorded, fraud would be the biggest crime issue in the country, he said. The proposer reinforced the argument, saying that fraud was easy to classify as a civil debt, as victims can be told that they have not tried hard enough to recover their money.

IX. The Role of Financial Institutions

The proposer lauded the involvement of financial institutions in successful, high profile investigations. All the police had to do was arrest and prosecute, he argued. The opposer agreed, saying that there exists an attitude among some police officers that, because the financial services industry's procedures create the problems, the industry should pay to resolve them.

X. The Role of Government

The Role of Government Responding to a question about whether there was hope of eradicating fraud when the Serious Fraud Office (SFO) could not investigate BAE's defence contracts with Saudi Arabia, the PROPOSER agreed that this was an example of a tampering in the process, and an open goal for law enforcement. It showed the SFO to be powerless against a government which does not take fraud seriously, even though it is corrosive and undermines trust in the police. It was noted that, in the USA, fraud is less acceptable and, consequently, the government is braver.

XI. Internal Fraud

Internal frauds were discussed, with one questioner arguing that the bulk of fraud is the result of employee activities, and often takes the form of identity theft. Ten per cent of the audience raised their hands when asked whether they had been a victim of identity theft.

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"The more unwieldy it is: the more technology you require to interpret and the more unlikely the wrong conclusion is arrived at."

XII. Technology

A participant noted that the argument that 'human nature prevents the abolition of fraud' fails because some types of human behaviour have been altered using technology. The proposer responded that the biggest frauds were conducted by clever individuals who get around the technology using the psychology of greed.

The opposer pointed out that technology plays a large part in the fight against crime, but that it is also an excellent enabler of crime. Cyber-crime is still in its early days however, and technology can still be improved to fight it. One participant pointed out that technology can do things that humans cannot do, but what humans can think of.

One questioner argued in favour of biometrics in areas such as ID cards and immigration for their ability to track people and remain secure from fraud. While the opposer agreed, the proposer said he was sceptical about vast collections of data, arguing that big databases are unwieldy and need more technology to interpret the data, making it more likely to arrive at the wrong conclusion. He raised the issue of the danger to civil liberties, saying that technology could be used as a cover up for more fundamental thinking about general honesty.

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The Vote

"Everyone had to take ownership of the problem."

The vote was taken. About 30 participants raised their hands in favour of the proposal that fraud cannot be beaten, and some five participants raised their hands against. The audience was then asked whether fraud could be minimised and about 40 people raised their hands.

The opposer concluded that the audience had agreed that fraud could be minimised and that he was happy with that response, making his final point that everyone had to take ownership of the problem.

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