Introduction

The Association of British Insurers (ABI) is the voice of the UK’s world leading insurance and long-term savings industry. A productive, inclusive and thriving sector, we are an industry that provides peace of mind to households and businesses across the UK and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation.

The UK insurance industry is the largest in Europe and the fourth largest in the world. It is an essential part of the UK’s economic strength, managing investments of over £1.8 trillion and paying nearly £12bn in taxes to the Government. It employs around 300,000 individuals, two thirds of which are outside of London.

Whilst we understand that the scope of the inquiry is broad, we have limited the detail of our response to the primary concern of addressing organised insurance fraud, alongside motor theft where the insurance industry and our customers are also impacted by organised criminal activity.

The Insurance industry and tackling fraud

1. Alarmingly, insurance fraud has become perceived to be socially acceptable and continues to corrode trust in society and the economic and physical harm inflicted on victims of fraud can be grave. Aside from driving up insurance premiums for everyone, fraud puts lives at risk through induced ‘crash for cash’\(^1\) and fraudulent arson\(^2\). It also has consequences for society at large by wasting the resources of the NHS, fettering court time and funding other serious organised crimes.

2. The insurance industry is committed to tackling all forms of insurance crime, including fraud, and protecting customers from becoming victims of criminal activity. The industry adopts a collaborative approach to tackling financial crime and fraud.

3. Insurance fraud cuts across every type of insurance and range of severity. At one end of the spectrum, fraud may be committed by opportunists, where people encounter an opportunity within their everyday experiences to invent or exaggerate a claim or to deliberately or recklessly provide false information when applying for insurance. At the other end, there are highly organised criminal gangs, for example fraudsters involved in ‘crash for cash’ or ‘ghost broking’\(^3\) scams. The scale of application and claims fraud detected by ABI members in 2018 is set out in ANNEX A.

4. It is conservatively estimated that ABI members spend at least £250m each year on measures to combat fraud that focus on the three core pillars of prevention, detection and enforcement. This includes several key initiatives, including the Insurance Fraud Bureau (IFB) and the Insurance Fraud Enforcement Department (IFED), that have led to a sea-change in the way that insurance fraud has been tackled for the last decade.

---

\(^1\) [https://www.bbc.co.uk/news/uk-england-leeds-39108244](https://www.bbc.co.uk/news/uk-england-leeds-39108244)

\(^2\) [https://www.bbc.co.uk/news/uk-england-46700151](https://www.bbc.co.uk/news/uk-england-46700151)

\(^3\) Ghost broking is a tactic used by fraudsters who sell fraudulent car insurance typically using three methods: they will either forge insurance documents, falsify driver details to reduce the premium or take out a genuine policy before cancelling it soon after to claim the refund plus the customer’s money.
The IFB and IFED

5. The IFB is a not-for-profit company established in 2006 focused on the detection and prevention of organised fraud. The IFB supports the insurance industry and law enforcement by providing intelligence and assisting investigations. The IFB also raises public awareness of insurance fraud scams: how they work and how to spot them, so that the chances of being caught out are reduced. Since 2006, the IFB has assisted the police in making 1253 arrests and securing 654 convictions that have resulted in around 585 years custodial sentences. The IFB currently has 123 live claims operations valued at around £166m and 76 application fraud operations valued at £13.2m. Several case studies demonstrating how the IFB works alongside police forces to bring insurance fraudsters to justice can be found at ANNEX B.

6. IFED is a specialist police unit dedicated to tackling insurance fraud. Established in 2012, IFED is funded by the ABI and Lloyd’s of London members, and is hosted by the City of London Police. IFED’s team of detectives, financial investigators and police staff act with operational independence while working closely with the insurance industry. IFED targets established criminality, including organised motor insurance fraud, while at the same focusing on emerging threats. Since IFED’s inception in 2012:
   • A total of 2,752 people have been investigated or are under investigation, with 1,249 suspect outcomes reached, including 536 cautions/conditional cautions (129 being from organised fraud);
   • A conviction rate of 83% has been achieved with 482 convictions, leading to over 285 years in custodial sentences, 128 years in suspended sentences and over 17,300 hours community service. 163 convictions relate to organised frauds, with 102 years custodial sentences being given to 67 defendants and 33 years suspended sentences to 39 defendants;

7. IFED financial investigators have made 155 financial orders, with a total of £2,801,000 being forfeited by insurance fraudsters. In addition, the insurance industry runs numerous awareness campaigns to alert the public to the risks posed by organised fraud. These include the “Get A Real Deal” campaign, aimed at raising awareness of the risks of becoming a victim of ghost broking and advising customers how they can buy competitively-priced motor insurance, as well as report cases of suspected fraud. The IFB has also run a “crash for cash awareness day” having identified that 29 January is the day that innocent motorists are most likely to be involved in an induced collision. It also highlighted the tell-tale signs of a crash for cash and what to do if you believe you are a victim.

The evolving insurance industry counter-fraud strategy

8. As insurers tighten controls in one area, fraudsters will look to exploit opportunities in another, where they perceive controls may not be as well developed. As such, it is vital that the industry’s counter-fraud strategy continues to evolve to stay ahead of increasingly mobile and sophisticated fraudsters.

9. Enablers of fraud, in particular claims management companies (CMCs), are also highly mobile and adaptable. CMCs have migrated from payment protection insurance (PPI) to

---

4 These convictions have resulted in confiscation orders/insurer compensation valued at more than £1, 162,000.
5 The IFB also has 24 ‘Other’ live operations (e.g. claims farming, data vishing) which it is not possible to value at this time.
industrial deafness, to whiplash to gastric illness travel sickness claims and are currently focusing on cavity wall insulation and data breach claims.

10. Over the past few years, insurers have seen an increase in the commoditisation of claims, in which claimants are seen as an opportunity to generate additional revenue for enablers of fraud. And the ‘dark web’ is playing an increasing role in acting as a market place for personal information obtained by criminals which is then used to identify potential claimants. It allows criminals to interact and transact with each other under a cloak of anonymity.

11. In order to counter the behaviour of fraudsters and enablers, the industry is developing an increasingly agile approach to combating fraud, straddling the three core pillars of prevention, detection and enforcement.

12. In the prevention space, the industry is developing innovative ways to sway consumer perceptions, attitudes and behaviours towards insurance fraud. In particular, we have published research founded in behavioural science which demonstrates how insurers can nudge customers towards greater honesty during the insurance process.

13. On detection, we are developing a clear strategy for managing industry data to improve counter-fraud capability which recognises that technology must be responsive to external influencers (such as the ongoing personal injury reforms) to ensure it remains fit for purpose.

14. The industry is also developing an agile approach to enforcement and disruption. While IFED continues to focus on the industry's strategic priorities, we are developing relationships with key regional forces and special operations units. The IFB has also developed referral mechanisms with the Solicitors Regulation Authority and the Financial Conduct Authority (FCA) to refer rogue solicitors and CMCs for investigation. In line with a recommendation of the Insurance Fraud Taskforce, insurers increasingly look to bring actions for fundamental dishonesty and private prosecutions.

The role of the Government, regulators and the Judiciary in fighting organised insurance fraud

15. While combatting fraud will remain an industry priority, it is vital that legislators, regulators and the judiciary play their part too and it is essential that the Government creates the right infrastructure and an environment that is conducive to combatting fraud effectively.

16. A key component within this will be the delivery of ongoing reforms to the personal injury compensation system. Measures contained in the Civil Liability Act will deliver a more modern approach to whiplash claims and create a fairer system for claimants, insurance customers and taxpayers which will reduce excess costs in the system and prevent the exploitation of the system by fraudulent and unscrupulous claimants.

17. We also support the transfer of regulation of CMCs to the FCA. The FCA is a well-established and resourced regulator, with a full suite of mature enforcement powers. It is, however, disappointing that the opportunity to extend regulation to other providers of claims management services (such as Medical Reporting Organisations; Credit Hire Organisations; Mackenzie friends) has been missed.

18. Following the transposition of the GDPR into UK legislation through the Data Protection Act 2018, it is important that the Government and regulators continue to take a proportionate

---

7 [https://www.gov.uk/government/groups/insurance-fraud-taskforce](https://www.gov.uk/government/groups/insurance-fraud-taskforce)
approach to the implementation of privacy legislation which recognises that data sharing for legitimate counter-fraud purposes is in the public good and should not be hampered by an over-zealous interpretation of the law.

19. While recent legislative reforms have helped to make the asset recovery process simpler and more effective, it is still unnecessarily protracted. We understand that law enforcement agencies, led by the Home Office, propose to implement the Asset Recovery Plan\(^8\), published alongside the UK Economic Crime Plan\(^9\). We support the Government's ambition to secure an operational response that is commensurate to the threat of crime and the changing methodologies that criminals use to obtain, hide and move their illicit finances. We agree that the Government must adopt a collaborative approach to return to year-on-year increases in asset recovery.

20. As part of Government's modern crime strategy, in December 2017 the Home Office announced the establishment of the National Economic Crime Centre (NECC), which the ABI fully supports. Given that many economic crime problems will have more than one driver (e.g. opportunity, character, profits, drugs, etc), this requires a coordinated approach. The best way to tackle crime – particularly organised crime – is to bring together expertise from across government, law enforcement, regulators and the private sector to share intelligence to help make the UK a more hostile environment for committing crime. The ABI supports measures that would entrench and operationalise the NECC as a genuine public-private hub for tackling serious organised crime.

21. Over recent years, the Government has engaged with the insurance industry on several key initiatives and the industry would like to see this continue with Government playing a central role as a partner in the fight against fraud and the promotion of counter fraud initiatives. One such initiative is the HM Treasury sponsored Insurance Fraud Taskforce, launched in January 2015, under the stewardship of David Hertzell, the former Law Commissioner, to help address the cost burden of insurance fraud for ordinary customers and explore the links between insurance fraud and other serious organised crime. The overarching aim of the Taskforce was to make recommendations to make the UK more resilient to insurance fraud.

22. The industry has made good progress in combating fraud through taking forward Taskforce recommendations, particularly in regard to improving consumer understanding, publishing good practice guides, data sharing and identifying emerging fraud trends.

23. However, the Taskforce also called for the Government to establish a legacy vehicle to ensure that the Taskforce recommendations were fully implemented. Despite some informal stakeholder meetings, it has not been formally established due to limited capacity cited by the Treasury.

24. It is disappointing that this body has not been formally established. The ABI believes that the Treasury would have been best placed to administer such a body and that, had it been established, then the recommendations of the Taskforce could have been more thoroughly and effectively implemented.

---


25. The industry has invested significant resource in assessing the feasibility of establishing a joint public-private database of proven frauds – the Counter-Fraud Data Alliance (CFDA)\textsuperscript{10}. The insurance industry has a proven track record in establishing counter-fraud databases spanning white (transactional), grey (suspected fraud) and black (proven fraud) data. A pilot data sharing exercise has recently been completed. We were disappointed to learn that the CFDA Board has concluded that the project will not be progressed. As referenced earlier, fraudsters are highly mobile and those committing, say, benefit fraud may also be committing insurance fraud.

26. Despite ongoing investment of the insurance industry in IFED\textsuperscript{11}, the scale of insurance fraud demands a coordinated national response from law enforcement to fraud. HM’s Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) review of the law enforcement response\textsuperscript{12} concluded that the response is currently disjointed and ineffective. There is no national strategy for tackling fraud.

27. As such, police forces have developed a range of different responses. Although there are some examples of good practice (IFED is cited), taken as a whole and given the scale of fraud, not enough is being done. Where it exists, good practice is not always disseminated or widely adopted. The report contains 16 recommendations to improve the response of law enforcement, including Chief Constables assuming responsibility for ensuring their forces improve the identification and mapping of organised crime groups in which the principal criminality is fraud. The ABI supports the HMICFRS recommendations.

28. The HMICFRS findings are reflected to some degree in the comments of Commander Karen Baxter\textsuperscript{13} of the City of London Police, the National Coordinator for Economic Crime, in recognising that police resource is being (disproportionately) diverted away from high value/harm economic crime to low value community crimes in order to meet public expectations. Commander Baxter also acknowledged that the Police need to do more to make the investigation of economic crime a more appealing career path.

29. The ABI therefore believes that the Government must fully recognise the harm inflicted by insurance fraud and take a more strategic and coordinated response.

30. When new Sentencing Guidelines were introduced in 2014\textsuperscript{14}, there were encouraging signs that the Sentencing Council and Judiciary had fully recognised the threat posed by insurance fraud. The Guidelines put insurance fraud sentences on a par with those handed down for banking fraud and confidence fraud\textsuperscript{15}. And they recognised – for the first time – the threat of physical harm – as well as economic harm that is posed, for example, by crash for cash and arson.

31. Initially, some notable sentences were handed down – such as that given to the notorious ghost broker, Danyal Buckharae\textsuperscript{16}. But anecdotal evidence over recent years points to a

\textsuperscript{10} Led by the Cabinet Office, this work involved the Department for Work and Pensions, HM Revenue and Customs, the insurance sector and the banking sector.
\textsuperscript{11} Insurance industry has invested in excess of £30m in IFED since 2012.
\textsuperscript{12} “Fraud: time to choose - an inspection of the police response to fraud” [HMICFRS – April 2019]
\textsuperscript{13} Industry and Parliamentary Trust roundtable: Tackling Fraud – Supporting UK Business (4 December 2018)
\textsuperscript{14} https://www.sentencingcouncil.org.uk/news/item/new-sentencing-guidelines-bring-increased-focus-to-the-impact-of-fraud-on-victims/
\textsuperscript{15} Confidence fraud is the reliance on another’s discretion and/or a breach in a relationship of trust resulting in financial loss
\textsuperscript{16} http://www.bbc.co.uk/newsbeat/article/24711241/car-insurance-ghost-broker-jailed-over-website-scam
relaxation in sentencing, with a number of suspended sentences being handed down. Having said that, there have been encouraging signs over the early part of 2019 that sentences are, once again, becoming tougher17.

32. Organised fraudsters will not be deterred by counter-fraud messaging warning of the consequences of fraud, including the threat of a custodial sentence. They will only be dissuaded from committing fraud by actual disruption of their lifestyles through incarceration and confiscation of their assets.

Motor Theft and Organised Crime: Impact on insurance

33. ABI figures show that the number of motor theft claims paid by insurers in the first quarter of this year were at their highest for any quarter since 2012, with a payment made to a car crime victim every 8 minutes. The cost of these claims rose by over 20% on the same period last year. The figures reflect rising vehicle crime, with Home Office figures recording a 50% rise in vehicle thefts over the last five years.

34. While spikes in 2015 had largely been driven by the theft of powered two-wheeled vehicles18, these offences are now in decline whereas the theft of cars and vans continues to rise. Recovery rates in recent years have been consistently lower (at around 50 per cent) than those experienced during the 1990s when the volume of vehicle theft was considerably higher. This may point towards a changing nature of crime with a growing number of vehicles being targeted by organised crime groups. ABI data also shows that the average cost of a theft of a vehicle claim has increased from £5,133 in Q1 2014 to £8,079 in 2019. This could be explained by the fact that organised crime groups target high-value vehicles.

35. While more traditional methods for stealing vehicles are still being used, including stealing owners’ keys by burglary or robbery, the compromise of electronic security systems has been identified as a method for committing vehicle theft. Recent testing by Thatcham Research gave 6 of the 11 vehicles launched this year a ‘Poor’ rating as the keyless entry/start system they have as an option has no security measures to prevent theft by criminals using the so-called ‘Relay Attack’ technique19. While vehicle manufacturers must take swift action to tackle this high-tech vulnerability, a better understanding of the role and availability of the tools that are used to aid this type of vehicle theft is needed to disrupt criminal activity.

Association of British Insurers
July 2019

18 These include moped, scooter, street, classic, super-sport, touring, custom, supermoto and off-road motorcycles
19 Relay attack exploits a vulnerability in passive keyless systems, which allows a criminal to open and start a vehicle without removing the keyless fob from inside the victim’s home.
ANNEX A

In 2018, insurers detected 98,000 dishonest general insurance claims valued at £1.18bn. The number was down 6% on 2017, while their value fell by just 0.3%. In contrast to claims fraud, the volume of application fraud increased by 5% to 371,000, with value increasing by 18% to £674m.

The volume of detected organised fraud increased by around 4.5% (to 10,889), although the value of organised fraud fell by around 10.4% to £130m. These figures reflect the work of the Insurance Fraud Bureau (IFB) and the Insurance Fraud Enforcement Department (IFED) in exposing crash for cash staged motor accidents, and other organised frauds, such as criminals (commonly referred to as ‘ghost brokers’) offering fake motor insurance.
ANNEX B

Operation Casino

This investigation related to a large-scale crash for cash network in West Yorkshire, orchestrated by an organised crime gang via a car dealership in Leeds. The gang targeted innocent motorists as they exited side roads, with poor visibility, with their 'stunt' drivers deliberately driving into the innocent parties. The Insurance Fraud Bureau (IFB) identified over 100 incidents but there were likely to be many more.

In one case, an elderly couple were targeted and the female passenger in the vehicle, 88-year-old Betty Laird, died as a result of her injuries. The male driver of the vehicle in the incident also died shortly after the collision, however the police were unable to directly relate his death to the crash.\[1\]

The investigation culminated in the conviction of several members of the gang, although this was not before an attempt by the gang to bribe the jury to return not guilty verdicts. A fire alarm at Leeds Crown Court was also deliberately set-off and jurors were filmed by gang members as they gathered at an assembly point outside the building. Another juror was also followed through Leeds city centre and ran into a bar to ask for help after being followed by one of the conspirators. The Judge took the highly unusual step of dismissing the jury. He then took advantage of rarely-used legal powers under section 46 of the Criminal Justice Act 2003, which allowed him to continue to hear the case without a jury.

Underlining the fact that criminal gangs involved in organised insurance fraud do not restrict themselves to one type of crime, the main suspects in the trial were also subject to a later trial in relation to a large haul of firearms uncovered during the raid at their car dealership, one of the largest in recent times for West Yorkshire Police. As a result, the key subjects were charged with firearms offences, including offences under the rarely-used Explosives Act 1875 as they had been stockpiling large amounts of gunpowder.

Operation Klister

This investigation was opened following a meeting between the IFB and the Regional Organised Crime Unit for the Eastern Region (ERSOU) to discuss several suspected induced accidents occurring in the Hertfordshire and Bedfordshire areas.

The nature of these incidents caused the police considerable concern due to the public safety issue of innocent drivers being targeted by a gang in slam-on type incidents. To generate maximum profits from these claims, the gang were recruiting individuals to provide their details to create personal injury claims.

The network was well-defined, with a hierarchy of individuals colluding to submit multiple fraudulent claims.

In total, there were circa 80 claims which could be attributed to the network, of which 16 were identified as key claims. Working with the relevant insurers, evidential packages were submitted by the IFB to ERSOU.
A total of 15 defendants were tried, of which 13 were found guilty and sentenced at St Albans Crown Court.

**Operation Setter**

This investigation centred around an individual who, not only ran a “crash for cash” insurance scam but was also the central organiser in the smuggling of illegal immigrants into the UK.

The key subject was involved in at least 21 “staged or invented” accidents over a four-year period, although prosecutors suggested that the scam was “just the tip of the iceberg”. The monetary benefit to the subject from the insurance fraud was assessed at nearly £300,000. However, the investigation also linked the subject to smuggling activities that (over a seven month period) saw a total of 87 illegal immigrants discovered in seven vehicles stopped on both sides of the Channel.

The Judge in the subsequent court case said that, while the subject was in the middle of the crash for cash insurance fraud, he was also at the heart of the people smuggling conspiracy. In sentencing the subject to 10 years imprisonment for the insurance fraud and smuggling conspiracies, the Judge stated “in addition to the position of vulnerability of the individual is the issue of national security. Given the present climate we live in, to facilitate individuals into this country who avoid border controls or official scrutiny has the potential of undermining, or at least compromising, national security, and the seriousness of that cannot be underplayed.”