

Attorney General's Office



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*“THE NATIONAL FRAUD STRATEGY”
SPEECH TO COUNCIL OF MORTGAGE
LENDERS*

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**“THE NATIONAL FRAUD STRATEGY”
SPEECH TO COUNCIL OF MORTGAGE LENDERS
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Good afternoon. I'm delighted to be here.

Today I will:

- set out how fraud in the lending sector is a challenge not just for financial businesses but for everyone
- introduce you to our vision of a fundamentally reformed approach to tackling fraud, and
- explore some of the areas where new partnerships, and new ways of working, can help us fight fraud better together - and make the UK a tougher target for mortgage fraud.

UK IS WORLD'S MOST DYNAMIC FINANCIAL SECTOR - BUT WE FACE NEW RISKS

As a secondee from the Financial Services Authority and an ex-banker, I'm proud to be part of the world's most dynamic financial sector. It's an astonishing achievement that we:

- export around £19 billion of financial services more than we import
- support around 8.5 per cent of the UK economy
- support one million jobs.

And the fact is that for the most important financial product that an individual will buy in a lifetime, the UK is one of the most competitive, innovative and responsive mortgage markets in the world.

I've seen at first hand what makes this success possible: intense competition and globalisation plays to our strengths of openness – to new ideas, people innovative technology and international trade. Today, no financial centre is as open, creative and responsive as the UK.

But the opportunities of open, dynamic markets can be used to do harm as well as good. In recent decades, sophisticated criminal and terrorist networks have emerged to become every bit as entrepreneurial and international as modern businesses.

Specializing in deception; compromising others; camouflaged by rising property prices - criminal networks have launched a sustained attack against lenders. Mortgage fraud is a fraction of the UK mortgage market, but it's a relatively big slice of the UK's fraud overall.

THE SHARED COST OF FRAUD

It's right for us to be talking about fraud today, because the impact of fraud of all kinds has never been higher.

At a national level, fraud:

- drives up costs to business and consumers;
- undermines trust, savings and investment; and
- it robs taxpayers of the public services they have paid for - because the government is the victim of fraud too.

At local level, ordinary citizens foot a £14 billion bill for fraud each year.

Recent media attention has shown how mortgage and property fraud hits individuals hard - and then ricochets through families and communities:

For example, just one buy-to-let fraud in the North east cost individual investors £25k, but resulted in 130 innocent staff from the fraudulent company being made unemployed and some five to 10 sole traders and creditors being put into liquidation.

And of course the public pay again for the stolen billions from fraud that are recycled by organised criminal enterprise – instilling fear in communities and increasing demand on the police and courts.

NO ONE CAN TACKLE FRAUD ALONE

So we're all victims of fraud. And law makers, law enforcers and industry have a shared interest in each other's success in fighting back.

Nowhere is our common interest clearer than in the lending sector.

Some of the most important enablers of fraud are contained within the financial services sector. The fact that no fraudster is going to get very far without a bank account puts banks on the front-line in our defence.

But banks and other lenders can only do so much themselves. Perhaps more than any other kind of fraud, tackling mortgage fraud needs action from a range of players - accountants, surveyors, solicitors, brokers and intermediaries, policy makers and police.

So the government and the financial sector depend on each other to deliver an effective challenge to fraud. If either of us tolerates vulnerabilities to crime on the premise that "someone else is paying the bill" – that just allows the threat to incubate, and hit us harder in the future.

THE GOVERNMENT'S REVIEW

In the past, criminals have found it too easy to exploit our failure to work together and tackle fraud coherently, in partnership. Those days need to come to an end.

Three years ago, the government commissioned a root and branch review of its approach to fraud. This found that:

- excellent efforts weren't having an impact; and that
- the overall response was fragmented and underpowered.

The Review argued that the enormous efforts to tackle fraud in the UK should be united and supported by real leadership and coordination.

FOUNDATIONS FOR A NATIONAL FRAUD STRATEGY

Coordination matters, because it's only by working together that we ensure that:

- knowledge of fraud is shared and managed effectively to prioritise and drive national improvement in tackling it;
- activity across the system - be it within government, the police, industry, the professions or wherever - is properly targeted and co-ordinated for maximum impact;
- law makers and law enforcers work together radically to change the balance of risk and reward against the fraudster;
- the system earns public confidence and integrity by delivering justice and redress for victims.

In October 2007, the Government announced that it would press ahead with the investment needed to make the recommendations of the Fraud Review a reality - investing nearly £29 million over three years of new, ring-fenced, money to build the UK's first national fraud strategy.

That is a clear and forceful indication of the commitment and support of stakeholders across industry and the criminal justice system.

We are now putting in place the building blocks for a national strategy to create an integrated response to fraud based on some key principles for success.

THE NFSA: WHAT IT IS

At the centre of this will be a National Fraud Strategic Authority. Its job is define and co-ordinate delivery of a national strategy that sets out a vision of success in tackling fraud; the steps needed to realise it; and the impact that these efforts are having in the real world.

For the first time, we'll have an agreed and integrated programme of activity across the system that allows the efforts of individual stakeholders to be coordinated for maximum impact.

The NFSA's mission is to act as a catalyst for change – providing leadership, resolving conflict, gaps and overlaps.

HOW THE NFSA WILL NEED TO ACT

As the NFSA comes on stream, we know that it will need to think about fraud in a non-traditional way.

We'll need to work fluidly across government departments; industry sectors; criminal justice; law enforcement.

We'll need to be ready to challenge the performance of government and industry so that we can help bring all stakeholders up to the level of the best.

We'll need to act on knowledge, which is why we're working with partners like the FSA, the CML and SOCA to ensure that we work on the basis of the best assessment of the problem.

THE MAC-G AND LEAD FORCE - JOINING POLICY AND OPERATIONS

Much of our focus will be on making the UK a harder target for fraud in the first place. But we'll also want to drive improvements in holding fraudsters to account for their crime.

So we're building the NFSA to have a dedicated operational component - which we call the Multi-Agency Coordination Group. This brings together all those agencies with enforcement functions to make sure that national priorities are translated into operational outcomes on the ground.

Our goal is to see priority frauds attacked by the right agency, with the right powers at the right time.

I want to see all enforcement agencies playing their full part to pursue fraudsters.

But obviously, the role of the police is vital - so to build the UK's capacity to investigate fraud, the City of London Police will expand its successful role as the lead force in the South East to act as a centre of excellence, building investigative expertise across the UK and create a National Lead Force.

This is no way dilutes existing law enforcement responsibility to investigate Fraud. And we'll be bringing forward our first proposals this year to make the criminal justice system better at dealing with fraudsters through the introduction of plea negotiation arrangements, the extension of Crown Court powers and examining the value of establishing Financial Courts.

THE NFRC – ACTING ON KNOWLEDGE

Now we know that effective policy and operations alike start with us all having the best possible knowledge of the problem.

The more we understand the threat of fraud, the more we can promote proportionate, targeted interventions that have most impact in reducing the problem.

To ensure that knowledge drives more effective interventions, we are developing a root and branch overhaul of the way that fraud is reported - and the way that these reports are assessed and shared.

It will be the job of a new National Fraud Reporting Centre to receive the UK's reports of frauds - from the public and from industry - and use these to illuminate our knowledge of fraud and refine our approach to tackling it.

There's increasing awareness across the financial crime agenda of the power of modern intelligence sharing and analysis. We're putting these lessons to use in operations and policy with the NFRC.

TACKLING MORTGAGE FRAUD TOGETHER

This conference has been about working together to tackle crime. I hope that I've given you a flavor of our ambition not just to work across institutional boundaries but to work across the full spectrum of anti-fraud activity – from deterrence to detection to disruption;

Lenders and the CML are already playing a hugely constructive role in developing this agenda. And this engagement has already highlighted mortgage fraud as a shared priority - for the CML, the FSA, for the NFSA and of course for you.

Mortgage fraud is only a small fraction of the UK's mortgage market. But it is a serious criminal threat. The experience across the Atlantic gives us a flavor of this - where the FBI report a forty per cent increase in mortgage fraud cases on last year - not including scams associated with sub prime loans.

WHAT'S ALREADY HAPPENING

Today has shown how different organizations - with different objectives and interests - have each understood that they have a role to play.

We need to capitalize on this momentum - to go beyond the analysis stage to the stage where key players - including lenders like you - are enjoined to take the concrete steps needed to tackle mortgage fraud comprehensively.

Working with lenders, supervisors and trade bodies, we'll be convening a series of industry roundtables in the next month or two. We want to build on

the research you've heard about today to focus on concrete solutions for the future.

THE PROGRAMME AHEAD

As we meet in the months ahead, some of the building blocks of our new challenge to mortgage fraud will already be coming together. Already:

- better intelligence is flowing about brokers of concern, leading directly to the disruption of mortgage fraud networks. Work is underway to ensure that the warning signs of abuse are shared more effectively.
- The CML is bringing forward proposals significantly to increase transparency on the mortgage procurement process.
- the BBA is developing the high-level best practice needed to capture some of the key lessons from those institutions who tackle mortgage fraud most effectively.
- for our part, we are using the opportunity of the pilot projects for the National Reporting Centre to test how enhanced analysis of mortgage fraud intelligence can underpin enforcement action against the perpetrators.

And looking ahead, we need to consider what further steps are needed. So it's not too early to think hard about questions like:

- How can firms take more informed decisions about the mortgage fraud risks associated with applications?
- How can they be helped to spot the bad apples?
- How can concerns about brokers or other professionals be reported to all the key supervisory or professional bodies in a streamlined way?
- How can better feedback be given to firms on how their help has made a difference?

RISKS TO MANAGE

As we answer questions like these, I want us to plan for success and for the long term.

The steps we take today need to cut across traditional barriers in the economy and the professions. Because the vulnerabilities that give fraudsters a head start are often outside the control of the lender, for example:

- the surveyor who values a house;
- the solicitor who confirms someone's identity;

This is why a national programme is required: because the potential enablers of fraud are often beyond the control of those who ultimately pay the price for them.

The steps we take today need to be proportionate - avoiding a knee-jerk backlash where the benefits are outweighed by the unintended consequences - for example on progress on the financial inclusion agenda, on customer choice, on treating customers fairly.

And the steps we take today need to pre-empt the diversion of criminality away from mortgage fraud to the next threat.

These are arguments for a new approach where we focus on the threats that matter most together, in partnership.

I look forward to working with you all to do so.

I hope you look forward to working with us.