

PSE

PUBLIC SECTOR EXECUTIVE

HOW TO KNOW YOUR
CITIZENS *(KYC)*
and **PREVENT FRAUD**

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ABOUT MELISSA

Melissa has over 37 years of experience in providing global data quality and identity verification solutions that enable organisations to improve their customer data management, reduce fraud and comply with regulatory requirements.

Melissa's UK office, with its local data and technology knowledge, provides a wide range of web services, SaaS and on-premise software solutions which helps organisations to deliver efficient data management and ID verification; to meet Know your Customer (KYC), Know your Business (KYB) and Anti-Money Laundering (AML) requirements.

Having helped over 20,000 organisations globally to unlock accurate customer data, Melissa works with organisations of all sizes, across a wide range of sectors, including: ASOS; BBC; Citi; Family Fund; the Financial Conduct Authority (FCA); the Foreign, Commonwealth & Development Office; GCHQ; GSK; Lambeth Council; and P&G.

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PUBLIC SECTOR FRAUD - WHAT *you* DON'T KNOW *can* HURT YOU.

MARK CHEESEMAN,
CHIEF EXECUTIVE,
PUBLIC SECTOR FRAUD AUTHORITY

The famous expression is that 'what you don't know, cannot hurt you.' Sadly, this is not the case when considering the damage caused by fraud in the public sector, which drives up the cost of public services, meaning that taxpayers' money goes less far in providing the services and structures on which we depend.

The British people expect that we will protect their money and do our best to root out fraud against public services when it happens, which is why the Government is focused on bolstering its defences.



THE FACTS, THE CONTEXT

The statistics make for stark reading. Fraud is the crime that you are most likely to fall victim to. As individuals, we all live in an environment where there is a level of fraud consistently around us - often in the form of 'scam' text messages or emails.

We should not think this is an experience peculiar to the UK. There has been an increase in fraud detected and reported internationally, driven in part by the digital revolution. In the UK we have a good deal of information and discussion on the extent of fraud, and knowing the problem you face is key to tackling it.

It would be wrong to think that the public sector is immune to this wider trend. The data indicates that fraud is often unseen and underestimated - just as it is in other sectors.

The estimates produced by the government indicate that fraud and error loss in government is between 2.1-3.8% of expenditure and income a year. Again, this is not a UK specific issue. In fact, the United States government estimates that improper payments account for 5.1% of expenditure, whilst EU estimates stand at 2.2%-3.8%.

This represents a significant opportunity to make taxpayers' money go further for more impact.

SO WHAT?

It can be tempting to think that this must be a 'somewhere else' problem. The reality is that fraud can happen in, or against, any part of the public sector. If we want to make a difference to it, we have to look to ourselves first and the difference we can make.

Fraud is inherently hidden. Those who commit it deliberately hide their actions. To deal with this, we have to actively look for fraud, and see success in finding it.

Whilst the digital revolution has brought us more ways for fraudsters to attack, it has also given us more tools and opportunity to both defend against and to uncover the hidden crime.

Historically, counter fraud teams in organisations were often focused on raising awareness of fraud, dealing with and investigating allegations and making recommendations for control changes for the business to consider.



FROM UNDERSTANDING TO ACTION

Whilst there will always be a need for awareness and investigation, the modern way of dealing with fraud is much more proactive and has a deep foundation in Fraud Risk Assessment. At its simplest level, this means 'thinking like a fraudster' and looking at how you would be dishonest and attack the system.

This can be difficult for an organisation. Individuals who have poured time and passion into creating initiatives often inherently find it difficult to then break them down and consider how they would be attacked.

Over the past decade, methods for undertaking fraud risk assessments have evolved. In 2018, the UK Government brought the best practice together to set a standard for Fraud Risk Assessment and built a qualification in line with those standards. This year the Public Sector Fraud Authority - the organisation at the heart of government that works with departments and public bodies to better understand and reduce the impact of fraud - will double the number of qualified fraud risk assessors in the public sector.

Organisations using our new standard have increased confidence in the quality of assessments. Good fraud risk assessments enable them to

understand how they will be attacked before it happens. These assessments can also be shared between organisations, to help identify risks that may have been missed.

An outdated approach sees the inherent value in the presence of these tools. Effective approaches, select and use of these tools rooted with a deep understanding of the problem - knowing how fraud will happen - a good fraud risk assessment.

This drives the use of data to identify fraud and mispayments. The tools that are available enable those trying to find fraud to do this at scale across payments and to apply analytical techniques to hone in and identify indicators that there is a hidden problem. We can then go even further, for example using Artificial Intelligence techniques, to scrutinise large data sets, identify trends and highlight features of likely irregularities.

By proactively looking for fraud, based on our deep understanding of how it may happen, we can start to see how these hidden attacks are happening and impacting us. This draws the hidden damage of fraud out into the open so it can be tackled. In turn, this can enable public bodies to push down the costs of public services, build their reputation and play their role in challenging the inherent unfairness that underlying levels of dishonest acts like fraud create.

WHERE TO START

It can be difficult to know where to start, especially in a large, complex organisation or group of organisations. The right approach is to start somewhere and, generally, to start small and then build.

Often the knowledge of where vulnerabilities are lies within the business. If the open question is asked, encouraging a 'think like a fraudster' mindset, then a good starting point will be found. From that, a resolute focus on looking for instances of fraud and irregular payments and creating a culture where they are celebrated when they are found - provides an organisation with a more active defence and increases its ability to combat this often unseen and underestimated issue.

Going back to where we started, we all know the old saying is often not true. What you cannot see can hurt you. If we don't see it, we don't worry about it and if we don't worry about it, it will eat away at our organisations and damage the public services we deliver and the society in which we live.

It is important that we get a bit agitated by fraud. We should be agitated enough that we want to make sure our organisations have a good understanding of how they will be attacked and we are actively looking for those hidden attacks that do so much damage. If we cannot see in our organisations good fraud risk assessments and deliberate activity using data to try and find fraud and irregular payments then we can be pretty confident that what we can't see will hurt us. That's why the Government is taking action to do just that.



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LEVERAGING SAAS *and* KYC for FRAUD PREVENTION



I have been working in counter fraud for over twenty years, and during that time the sector has changed considerably. Gone are the days when investigators worked manually as – thanks to the digital age - businesses and counter fraud staff have transformed the way they operate, making it even easier for consumers to access products and services online.

But whilst these changes undoubtedly have their advantages, they have also given rise to new challenges - especially when it comes to fraud.

RACHAEL TIFFEN,
DIRECTOR OF PUBLIC SECTOR,
CIFAS

Fraudulent activities, such as identity theft, financial scams, and unauthorised access, pose significant threats to businesses and consumers alike. But it's public sector organisations and local authorities that continue to face a significant fraud challenge.

The latest figures from the government estimate that the cost of fraud and error against the public sector is at least £33bn a year, and this is exacerbated by the growth in employees working from home and hybrid working, as well as the ongoing cost-of-living crisis.

In order to better tackle fraud, organisations can turn to Software as a Service (SaaS) solutions and Know Your Customer (KYC) processes. In this article, I'm going to look at how the synergy between SaaS and KYC can more effectively prevent fraud, and help organisations act swiftly and effectively as soon as fraud is detected.

SaaS, or Software as a Service, is a software delivery model where applications are hosted and maintained by a third-party provider to be used by customers over the internet. Unlike traditional software that requires installation and updates, SaaS applications are accessible through web browsers, meaning they are more convenient and scalable for businesses. This cloud-based approach offers several advantages, particularly in the context of fraud prevention.

The benefits of using SaaS solutions include real-time monitoring and analysis of transactions and user behaviour. This can aid fraud prevention as authorities can identify suspicious activity in real time, triggering alerts so that action can be taken swiftly. In addition, this can be done to scale if additional features or users are added.

KYC, or Know Your Customer, is how authorities verify and check the identity of customers. As it has been around for a long time, there is more accurate information about customers and users meaning the risk of fraud or other activities such as money laundering is reduced. KYC processes can involve the collection and verification of customer data, such as government-issued IDs, utility bills, and financial statements.

Putting the two together can provide an effective tool in fraud prevention. SaaS solutions can effectively integrate KYC processes into their platforms, meaning identities can be verified - not just at the very beginning of an application, but right through the onboarding process. This can document verification, authentication and liveness checks, ensuring that the individual is a genuine identity, as well as ensuring that the person creating an account is who they claim to be.

This can help to reduce the soaring cases of identity fraud, which we know is a significant issue for organisations. Indeed, Cifas research shows that in the first six months of 2023 there was a staggering 180% increase in the number of companies in the UK targeted for identity fraud.

It can also be linked to continuous monitoring of customer profiles for suspicious changes, for example if the personal information associated with a customer's account suddenly changes. Helpfully, organisations can also create alerts for this type of suspicious activity, meaning they are able to react swiftly and without delay and better reduce the fraud risk to their business.

HOW TO KNOW YOUR CITIZENS (KYC) *and* PREVENT FRAUD

DAN BENN,
LEAD JOURNALIST,
PUBLIC SECTOR EXECUTIVE

BARLEY LAING,
UK MANAGING DIRECTOR,
MELISSA

Fraud is one issue that plagues organisations in every industry, but with the public sector it is an issue that needs tackling more than anywhere else. With the nature of the money that courses through the sector, protecting the public purse from fraud is vital to ensuring that communities get the most value out of the taxes that they are paying.

Speaking about the importance of protecting this money, Barley said: "It's imperative that those in local government and the wider public sector do what they can to minimise the opportunity for and impact of fraud. The answer to prevent it is to know your citizens (KYC), to make certain they are who they say they are, and are legitimately entitled to the services offered."

To give an example of why having KYC processes in place is so important you only have to look at the Government's bounce back loan scheme

for businesses during the pandemic. It's been estimated that £4.9 billion has been lost to fraud via this scheme. There is also a wider issue across the public sector as the Cabinet Office estimates that fraud and error in public spending costs taxpayers £51.8 billion per year. This figure is more than the UK's annual defence budget.

One way that organisations both inside and outside the public sector can make sure the right people are accessing the funding and services they are eligible for is through technology that delivers effective KYC processes.

Barley highlights why it's important to have such technology in place: "There's a lot of things that could be done using best practice technologies, but it is quite daunting if you don't have a background in it. The answer is to find services and capabilities that are not only rigorous and

effective for the outcome i.e. stopping fraud, but also easy to use and deliver a positive user experience by delivering checks in real-time. What I mean by that is twofold: It needs to be easy to use for the public sector organisation, whether that's a local council or central government department, by ensuring it's something that they can simply engage with. It also needs to not impact negatively on the experience of citizens when they access services, because they want access quickly and efficiently, which means undertaking KYC, essentially via ID checks, in real-time.

One way of doing this is to source a service that is already set up and ready to go. This is what software as a service (SaaS) technology can deliver. With this approach an organisation is able to pay the licence fee for the service and begin utilising it within a matter of hours. Barley said: "There's lots of options out there and the good news is, with the range of technology available, regardless of the technical capability that you have in house as an organisation, you can access it and undertake KYC / ID checks, straightaway."

Whilst it is all well and good knowing that you need this technology, it is important to understand the role that it plays in protecting your department and wider organisation, in preventing fraud. Barley brought up Melissa's experience here, saying: "We frequently get organisations approach us saying we absolutely recognise that we need to do something because we know the technology exists, we just don't know where to start."

"With SaaS delivered fully working there is no integration required. There's also no maintenance or updates required. All of those things are handled by the service provider so they are seamlessly delivered. All the user has to do is start accessing it straightaway.

"It shouldn't be a technical capability that holds people back because SaaS can deliver the technology without the hard work and the time involved in having to implement it, either by yourselves or through a third party."

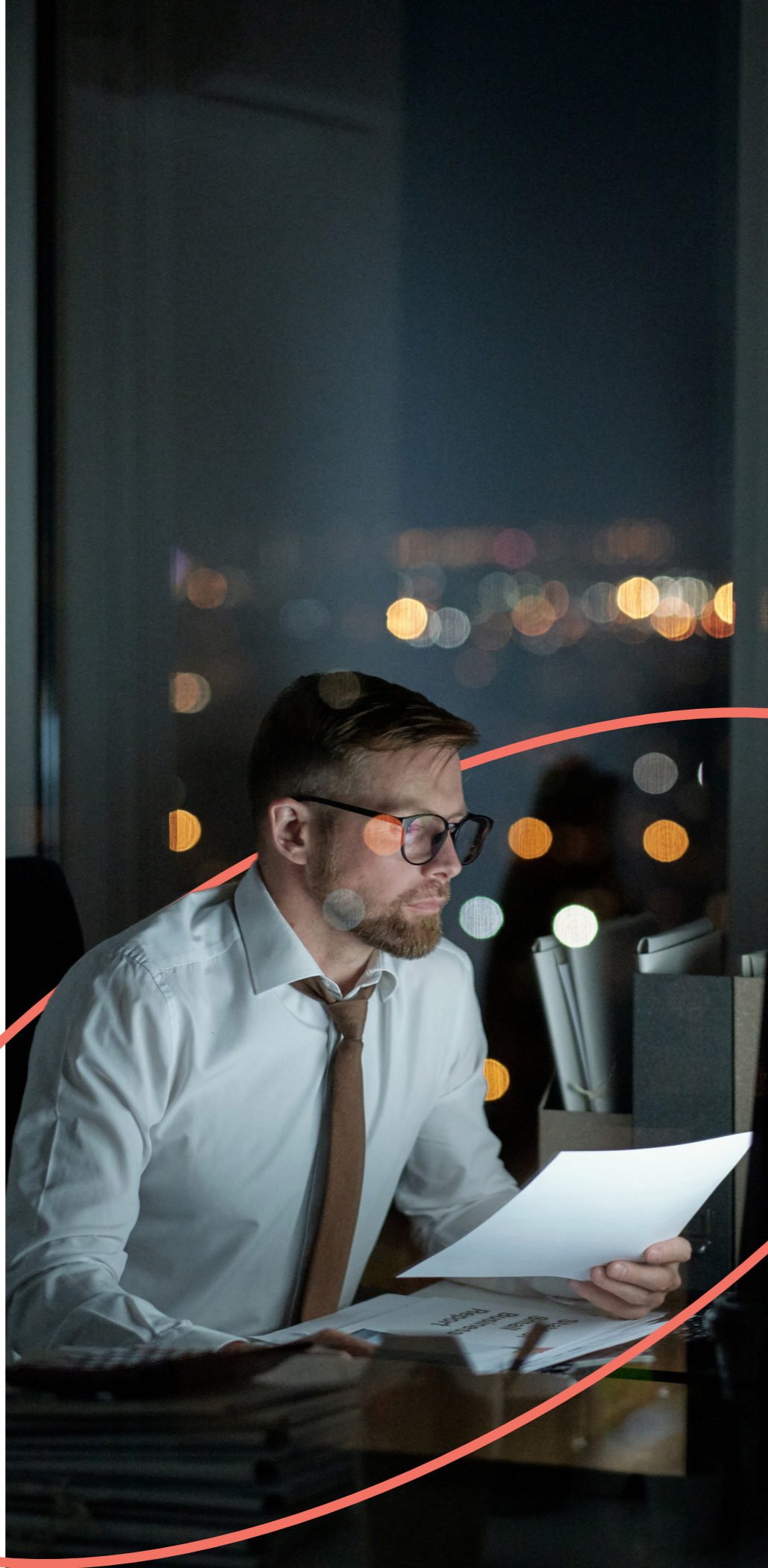


KYC IN TANDEM WITH KYB

It's electronic identity verification (eIDV) SaaS platforms that provide insight to help know your citizens (KYC) as part of their core functionality. However, it's important that the eIDV platform that's sourced is also able to deliver know your business (KYB) checks, to enable organisations to fully understand the risks posed by new and existing suppliers, business customers and partners.

"FRAUD IS OFTEN COMMITTED BY THOSE USING SHELL COMPANIES OR UMBRELLA STRUCTURES THAT JUST DON'T EXIST IN REALITY"

Barley comments: "Fraud is often committed by those using shell companies or umbrella structures that just don't exist in reality, so undertaking KYB to validate an organisation can greatly diminish that type of fraud from occurring. Also, undertaking KYB will help to prevent financial crime, such as money laundering and terrorist financing, which could result in significant reputational damage, quite apart from the monetary cost of the relationship."



WHAT KIND OF COST IMPLICATIONS DOES ALL THIS HAVE ON THE SECTOR?

Cost is a crucial factor when the public sector implements anything, particularly at this time of high inflation and reduced budgets. With issues around funding often forcing organisations to cut back on the services that they provide, making sure that the most value is achieved for the citizen, whilst coming in a price point that the organisation can justify is essential. Barley touched on the cost side of protecting the sector from fraud: "What is the long-term cost of not having these capabilities in place, to the public purse? Doing nothing is not an option, you need to do something to protect tight budgets. A simple to implement SaaS eIDV solution is a very cost-effective answer to this issue because, not only is it straightforward to get up and running, but it's very flexible from a scalability perspective. If you're making a couple of hundred identity checks on an annual basis, you can still access the service at a very sensible price point."

With the cost effectiveness of SaaS technology, combined with the importance of making sure that the public purse is protected from fraud and error, there is no reason why organisations across the public sector aren't making use of the SaaS eIDV technology that is available to them. As mentioned above, fraud and error costs the taxpayer more money annually than has been committed to the UK defence budget, so utilising the best technology possible to prevent this is vital.

Having the ability to overcome skill and budgetary issues makes SaaS eIDV technology that delivers KYC and KYB checks not only highly attractive, but invaluable to the sector as a whole.

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How **LAMBETH COUNCIL** **UNDERTAKES EFFECTIVE** **KNOW YOUR CITIZEN** *(KYC) / ID CHECKS* *to* **PREVENT FRAUD**

BACKGROUND

Citizens in Lambeth completing Housing Benefit and Council Tax Support claims must have their identification verified to ensure they are who they say they are and eligible for the services they are applying for. This is critical to prevent fraud and protect scarce council financial resources.

CHALLENGES FOR LAMBETH COUNCIL

In the past, Lambeth relied on citizens to provide proof of their identity to validate their claims to minimise and prevent fraud.

However, not everyone holds identification. Even for those with identification, some applicants are unable to get to Lambeth's offices to present it, or able to acquire photocopies of their ID due to lack of support and vulnerability.

Lambeth only provides front of house services for vulnerable users and as a consequence needed an alternative way to validate identity, particularly since the pandemic, with many services now online and users used to accessing these digitally.

There were concerns that the requirement for manual ID checks was significantly lengthening the user journey, when most low and most medium risk claims could go to payment straight away.





LAMBETH COUNCIL WORKING WITH MELISSA TO DELIVER KYC AND PREVENT FRAUD

To securely speed up the process of identity verification for those claiming Housing Benefit and Council Tax Support Lambeth started using Melissa's automated electronic ID verification (eIDV) service in April 2022.

This full-service identity verification offering enables the Council to undertake comprehensive know your citizen (KYC) and anti-money laundering (AML) checks in real-time.

This is because Melissa's eIDV tool has access to reputable global data streams, such as government agency, credit agency and utility records, to match the name, address, date of birth, email, or phone number in real-time as an online application or sale is completed, ensuring the user experience isn't negatively impacted.

Using this platform Lambeth is able to look at the address, the name of the person and their date of birth, and make sure they all match to verify identity.

Melissa's eIDV service works alongside Lambeth's risk-based verification tools, which take into account all circumstances stated on the claimant's application and decide the risk of fraud and error associated with that particular claim. All claims are then ranked either high, medium or low risk.

With approximately 60 per cent of cases categorised as low risk, time to process these have decreased by approximately eight days, improving the customer journey. This allows Lambeth to spend more time on complex claims where more information is needed.

EXAMPLE OF THE EIDV SERVICE IN ACTION

Mr & Mrs Askew claim Housing Benefit & Council Tax Support and live in temporary accommodation with three children.

Mr Askew works for Asda and has claimed Working Tax Credit and Child Tax Credit.

The claim is medium risk; therefore Lambeth needs evidence to assess the claim.



OUTCOME

Using Melissa's automated eIDV service Mr Askew's name, address and date of birth are all matched and verified in real-time. All other information is verified by Lambeth's in-house systems, such as CIS and VEP.

This approach means identification is no longer needed in paper format, reducing the burden on the citizen to provide it. There's also no longer a need for time consuming, costly manual checks.

This results in claims being assessed, claimants such as Mr Askew notified, and payments being received in a timely manner - ensuring a standout service is delivered for users.

Additionally, all KYC, AML and compliance requirements are met using this service.

Mairéad Brophy, Performance Manager, Digital & Data, Residents & Enabling Services at Lambeth Council, commented: "Moving from manual to automated ID checks using Melissa's eIDV service has brought with it a huge number of benefits. These include real-time, accurate automated identity verification via an easy-to-use platform that works seamlessly with our existing in-house systems. Also, our claimants no longer need to provide ID, simply their contact details and date of birth online. It's an approach that has speeded up our processes, helping us to deliver a better user experience.

"Now, more than ever, we are very confident in our ability to prevent fraud and protect tight budgets, all at a lower cost compared to when we implemented manual ID checks."

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