

## 2.1. Fraud Core Concepts

### 2.1.1 Fraud #Fraud

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#DEF Fraud is an **uncommon, well-considered, imperceptibly concealed, time-evolving** and often **carefully organized** crime which appears in many types of forms.

Fraud is a **social phenomenon**.

### 2.1.2 Characteristics

- **Uncommon**: Only a **minority** of cases concerns fraud, of which only a **limited** number will be **known** to concern fraud.

Because it is uncommon is **makes difficult**:

- **Detect fraud**: *fraudulent cases are covered by the legitimate ones.*
- **Learn from historical cases**, since only *few examples are available*.

- **Well-considered and imperceptibly concealed**  
**Fraudsters** try to remain unnoticed and covered.

- Blend in frauds.
- Not behave different from non-fraudsters.

**Fraudsters** hide very well by well-considering and planning how to precisely commit fraud.

- Frauds are not impulsive and unplanned.

- **Time evolving**

Fraudsters adapt and refine their methods to remain undetected.

Fraud-detection systems improve and learn by example.

*Fraudsters techniques evolve in time along with, or better ahead of fraud-detection mechanisms.*

- **Carefully organized crime**

Fraudsters:

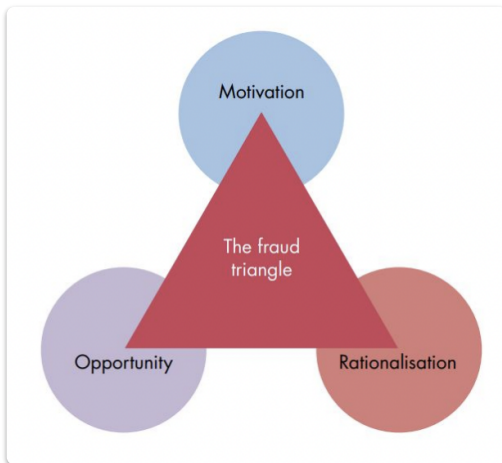
- Do **not** operate *independently*
- Involve **complex** and **organized structures**

Fraud = not an isolated event

To detect fraud the **context should be taken into account**.

### 2.1.3 Why do people commit fraud? #FraudTriangle

The basic driver for committing fraud: **potential monetary gain or benefit**.



#### Fraud Triangle:

Basic conceptual model that presents the factors that explains the drivers for an individual to commit fraud.

### 2.1.4 Categories #Categories

- Banking and credit card fraud.
- Insurance fraud.
- Corruption.
- Counterfeit.
- Product warranty fraud.
- Healthcare fraud.
- Telecommunications fraud.
- Money laundering.
- Click fraud.
- Identity theft.
- Tax evasion.
- Plagiarism.

#### 2.1.4.1 BANKING AND CREDIT CARD FRAUD #BANKINGFRAUD

#DEF **Unauthorized taking of another's credit.**

1. **Application fraud**: Obtaining new credit cards from issuing companies by using **false PII** (personally identifiable information), and then spending as much as possible in a short space of time.
2. **Behavioral fraud**: details of legitimate cards are obtained fraudulently. It does not necessarily require **stealing** the physical card, but only **credentials**.

#### 2.1.4.2 INSURANCE FRAUD #INSURANCEFRAUD

#DEF **Fraud related to any type of insurance.**

Two sides of an insurance contract:

- From the **side of the seller**:
  - Selling policies from *nonexistent companies*.
  - Churning policies to *create more commissions*.
- From the **side of the buyer**:
  - Exaggerated claims (*property*).
  - Falsified medical history (*health*).
  - Postdated policies, faked death, kidnapping or murder (*life*).
  - Faked damage (*automobile*).

#### 2.1.4.3 CORRUPTION #CORRUPTION

#DEF **The misuse of entrusted power for private gain.**

#### 2.1.4.4 COUNTERFEIT #COUNTERFEIT

#DEF **An imitation intended to be passed off fraudulently or deceptively as genuine.**

Counterfeit typically concerns valuable objects:

- Credit cards
- Identity cards
- Popular products
- Money

#### 2.1.4.4 PRODUCT WARRANTY FRAUD #WARRANTY

**Product warranty:**

- Type of guarantee that a manufacturer makes regarding the condition of its product.
- Terms in which repairs or exchanges will be made in the event that the product does not function as originally described or intended.

**Fraudulently** claiming compensation or remuneration based on a product warranty.

#### 2.1.4.5 HEALTHCARE FRAUD #HEALTHCARE

#DEF **Filing of dishonest healthcare claims to make profit.**

#### 2.1.4.6 TELECOMMUNICATIONS FRAUD #TELECOMMUNICATIONS

#DEF **Theft or use of telecommunication services to commit other forms of fraud.**

**Cloning fraud:** the cloning of a phone number and the related call credit by a fraudster.

**Superimposition fraud:** fraudulent usage is added to the legitimate usage of an account.

#### 2.1.4.7 MONEY LAUNDERING #MONEYLAUNDERING

#DEF **Taking the proceeds of criminal activity and making them appear legal.**

Allows criminals to *transform illegally obtained gain into seemingly legitimate funds*. It is a **worldwide problem**, with an estimated \$300 billion gain in the United States.

#### 2.1.4.8 CLICK FRAUD #CLICKFRAUD

**#DEF** **Illegal clicks on a website's click-through advertisements to increase the payable number of clicks to the advertiser.**

The *illegal clicks* could either be performed by:

- **Manually**
- **Automated**

#### 2.1.4.9 IDENTITY THEFT #IDENTITYTHEFT

**#DEF** **Obtaining the personal or financial information of another person for the purpose of assuming that person's identity to make transactions or purchases.**

- Sift through trash bins *looking for bank account and credit card statements*.
- *Accessing databases* to steal lists of customer information.

#### 2.1.4.10 TAX EVASION #TAXEVASION

**#DEF** **Illegal act or practice of failing to pay taxes that are owed.**

Example: Knowingly not reporting or underreporting income

#### 2.1.4.11 PLAGIARISM #PLAGIARISM

**#DEF** **Steal and pass off the ideas or words of another as own.**

- *Steal and pass* off the ideas or words of another as own.
- To commit literary *theft*.
- To present as *new and original* an idea or product *derived from an existing source*.

It involves both **stealing** someone else's work and **lying** about it afterward.

### 2.1.5 Frauds Impact #Impact

- A typical organization loses 5 percent of its revenues to fraud each year ([www.acfe.com](http://www.acfe.com)).
- The total cost of insurance fraud (non-health insurance) in the United States is estimated to be more than \$40 billion per year ([www.fbi.gov](http://www.fbi.gov)).
- Fraud is costing the United Kingdom £73 billion a year (National Fraud Authority).
- Credit card companies "lose approximately seven cents per every hundred dollars of transactions due to fraud".

**Need to invest into up-to-date defense infrastructures.**

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Next chapter: [Anti-Fraud Strategy](#).