R3 Business Distress Index (July 2016) – Fraud focus

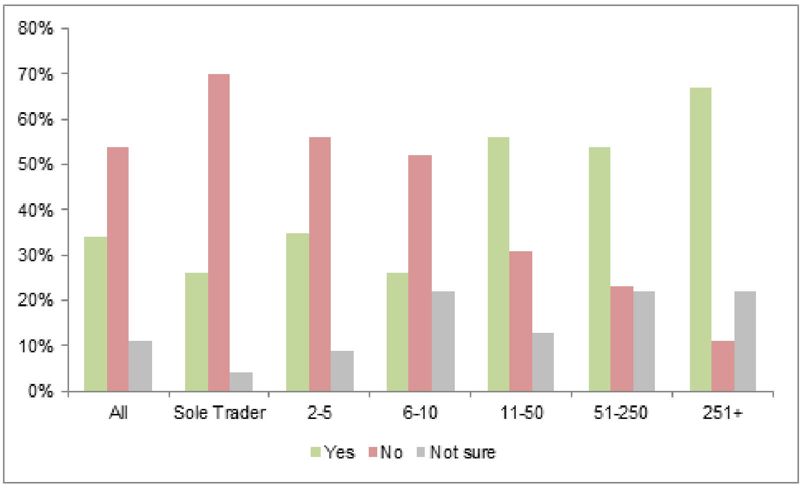
R3's (the insolvency and restructuring trade body) latest business research – conducted before the EU referendum - shows that over half of UK businesses have no agreed written fraud risk policy in place to prevent and detect fraud.

Key findings

Business fraud policy

- The survey of 500 senior financial decision-makers found that 54% of businesses had no such policy in place, while 11% weren't sure.
- Small businesses are most unprepared for fraud. 70% of sole traders and 56% of companies with 2-5 employees have no agreed policy, compared to 11% of large companies (250+ employees).
- 53% of companies that have a website don't have an agreed fraud policy and neither do 48% of businesses that accept online payments.

Businesses (by size) with an agreed written fraud risk policy in place



Commentary from R3 President, Andrew Tate

"Fraud is a staggeringly expensive problem for the UK economy, yet half of the country's companies don't have precautions in place to protect themselves against fraudsters. Businesses in every sector and of all sizes are at risk. An agreed written risk policy should outline a company's strategy for preventing, detecting and dealing with fraud."

"Fraudsters are becoming more professional and innovative in how they target businesses. For example, our members have seen cases of fraudsters replicating company email addresses pretending to be senior staff, and writing to employees ordering the quick transfer of funds to a specific account. By the time the staff realise it's a con, the money is long gone."

"Smaller companies are just as much at risk of fraud as their larger counterparts, but losses as a result of fraud could be much harder for them to absorb and recover from. While smaller companies understandably have greater constraints on their resources, agreeing a written fraud policy doesn't have to be an onerous or expensive task. It's an opportunity to identify fraud risk factors, evaluate whether sufficient controls are in place and set out the steps to be taken if targeted."

"When it comes to managing fraud risk, larger companies have a duty to shareholders and compliance regulations they have to meet. The three-in-ten big companies that don't have or aren't certain about their policy should take action."

"It's worrying to see nearly half of businesses that accept payment online, which will involve customers sharing their personal financial information, aren't taking preventative steps to protect themselves against fraud. This leaves not only the business, but their clients, exposed."

"It's no surprise that the internet has proved a popular portal for fraudsters to target individuals and businesses. Companies with an online presence, whether they are a small local firm or a multinational corporation, are more vulnerable."

"Aside from having a fraud risk policy, there are a number of preventative measures businesses can take. Companies can find tips and advice online from organisations such as the Fraud Advisory Panel."

Role of Insolvency Practitioners in tackling fraud

Insolvency Practitioners (IPs) have a key role to play in tackling fraud. Their extensive powers to investigate, and under civil litigation, pursue those involved in fraudulent financial activities puts them in a unique position to fight fraud and help the government deliver their policy objectives.

Among the powers of insolvency practitioners is: the ability to interview anyone with relevant information under compulsion, and to compel answers; search and seizure of property and evidence associated with fraud; the ability, by Court Order, to take over the financial affairs/property of an individual or company conducting fraud without notice; obtaining freezing orders; overturning transfers to third parties; and preventing a person leaving the country by obtaining a passport order.

R3's latest members' survey (June 2016) asked insolvency practitioners about the number and frequency of fraud cases they have worked on. Results indicated that:

- 37.2% of IPs had been approached to use an insolvency procedure as a means to investigate fraud in the last twelve months.
- Those IPs who said they had been approached in the last twelve months also said they had been approached with an average of 3.88 cases in the last year.
- Asked to think about their own cases in the past year, 27% of IPs said they had seen an increase in fraud-related insolvency cases from the year before, whilst 60.6% of IPs said they had seen no change. Only 2.2% of IPs said they had seen a decrease in fraud-related insolvency cases.

Method: BDRC Continental conducted 500 telephone interviews with small, medium and large business owners and Financial Directors in June 2016. Strict quotas are set by size, and softer ones for region and sector. The data is weighted to be representative of all UK businesses with an annual turnover above £50,000. The weights applied are based on the business population data from the Department for Business Innovation and Skills (BIS). The respondent in each case is a senior financial decision maker.

About R3: R3 is the trade body for the UK's insolvency and restructuring profession. From senior partners at global accountancy and law firms to practitioners who run their own small and micro-businesses, our members have extensive experience of the personal and corporate debt landscape. *For more information please contact James Jeffreys (Public Affairs and Policy Officer) on 020 7566 4220 or james.jeffreys@r3.org.uk www.r3.org.uk. Follow us @R3PressOffice*