Equifax Ltd – Written evidence (FDF0019)

Summary

In this response, we:

- Highlight how prompt and effective debt recovery can minimise the fiscal cost of fraud against the government.
- Use the projected £17 billion Bounce Back Loan Scheme debt as an example for how the government can save taxpayers money through better debt recovery.
- Share evidence on the advanced technology many retailers now use to prevent digital fraud.

We also make recommendations to reduce the impact of fraud on consumers, businesses and taxpayers, including proposing that the government:

- Invest in analysis and pilots to better understand how to recover BBLS debt after it pays lenders guarantees.
- Strengthen incentives and budgets for debt recovery in the public sector so it can collect debts as soon as possible and wherever it is economic to do so.
- Introduce regular reporting on which government departments meet the Cabinet Office's mandatory Functional Standards for counter fraud and for debt.
- Work with counter fraud specialists, including credit reference agencies, to identify, evaluate and make available datasets held by the public sector that have a high potential to improve counter fraud and debt recovery.

Reduce the fiscal cost of fraud in public services through better debt recovery

When the government detects fraud, that fraud becomes debt it can recover. The earlier debt recovery begins, the more debt it can collect. The more debt that is collected, the lower the cost of fraud to taxpayers and the less incentive there is to try to defraud the government in future. So debt recovery must be central to any discussion about how to minimise the impact of fraud.

Effective debt collection is already saving taxpayers money and reducing the cost of fraud. A recent Cabinet Office audit found that in 2020-21 alone, the Debt Market Integrator (DMI) delivered £373,570,440 of assured savings for taxpayers from "additional debt recoveries through the private sector that would not have been recovered without the DMI's existence"[1]. The DMI provides streamlined access to fraud and debt recovery services to over 50 public sector organisations. It is delivered by Indesser, which is owned by TDX Group, an

[1] Cabinet Office (2022) Government efficiency savings: technical note

Equifax company. Since it was set up in partnership with the Cabinet Office in 2015, Indesser has recovered nearly £3 billion for taxpayers by combining highly trained staff, advanced data analytics and panels of specialist debt collection agencies.

There is much more potential though for better debt recovery to save taxpayers money and reduce the fiscal cost of fraud still further. The Cabinet Office reported in March that "debt owed to the government from UK entities" had more than doubled from £28.8bn to c.£64.8bn[2]. Much of that debt is the result of fraud.

All public bodies can procure best in class debt collection and counter fraud service through the DMI and Crown Commercial Service's new Debt Resolution Services framework. However, many public bodies face funding caps that limit the amount they can spend each year on debt recovery. That can mean they have to stop debt collection mid-year even though they would recover more taxpayers' money than they would spend. Also incentives to maximise debt recovery are also not always aligned - typically central government departments pay but any money recovered is passed to Treasury. That also means departments might have to divert money to debt recovery from other spending priorities. In addition, the Cabinet Office notes a new challenge with "Covid-19 having created debt in departments that had little historic need for debt management capability"[3]. To overcome that, the Cabinet Office concluded that "increasing debt capability is key".

We recommend the Committee consider the following recommendations to keep improving public sector debt recovery and reduce the impact of fraud on the public sector:

- **Incentives and budgets for debt recovery should be strengthened** so that debt can be recovered as soon as possible wherever it is economic to do so.
- The government could **introduce regular reporting on which departments meet the Government Functional Standards for counter fraud[4] and for debt[5]**.
    - ☐ Functional Standards set expectations for consistent management across government. It is mandatory for all central government departments and arm's length bodies to follow the Standards[6].
    - ☐ The data to report should already exist. The Functional Standards mandate monitoring and reporting[7]. Annual reports should include statements about use of Functional Standards[8]. On counter fraud, the Cabinet Office recently announced that "there has been a 35% increase in departments meeting the Standard, an increase in the

[2] Cabinet Office (2022) Strengthening the cross-government functions (progress update, January 2022)

[3] Cabinet Office (2022) Strengthening the cross-government functions (progress update, January 2022)

[4] Cabinet Office (2021) Government Functional Standard GovS 013: Counter Fraud

[5] Cabinet Office (2021) Government Functional Standard GovS 014: Debt

[6] HM Treasury (2021) DAO 05/21 Mandating Functional Standards from end September 2021

[7] Cabinet Office (2021) Government Functional Standard - GovS 001: Government functions

[8] HM Treasury (2021) DAO 05/21 Mandating Functional Standards from end September 2021

detected level of fraud by 243% and an increase in prevented fraud by 800%”[9].

- ☐ Reporting this type of data on compliance and results could help drive improvement in counter fraud and debt recovery across government. To the best of our knowledge though, such data is not reported routinely and there is no publicly available data at all on the extent to which public bodies meet the Functional Standard for debt.

- The government should **invest in analysis and debt recovery pilots to better understand how to reduce the estimated £17 billion fiscal cost of the Bounce Back Loan Scheme (BBLS) through additional debt recovery** and if it is economic to do so.

Case study one: additional debt recovery can reduce the fiscal cost of the Bounce Back Loan Scheme

The BBLS provided £47 billion of finance quickly to over 1.5 million borrowers, mainly SMEs, at the height of the pandemic[10]. BEIS is a department that has traditionally had relatively little need for debt collection capabilities but it estimates that £17.2 billion of BBLS will not be repaid[11]. Of that, £4.9 billion is due to fraud. The remaining £12.3 billion is due to losses where debt will not be recovered from borrowers who refuse to pay or are in financial difficulty.

The government has made clear that it is lenders’ responsibility to recover the loans and that lenders must follow their standard processes to recover a loan otherwise they will not be eligible to claim their 100% guarantee. The government does not intend to recover any debts itself - once banks have completed their standard recovery processes, the debts will be written off.

Recovering an extra 5% of the £17.2 billion BBLS debt would be enough to recruit 12,700 more police officers to boost the fight against fraud[12]. There is a strong case that the government could outperform lenders’ standard recovery process and recover more money for taxpayers after paying lenders their guarantees:

- The government has resources and expertise in debt recovery that lenders do not have. This is shown by the success of the DMI/Indesser (above) and the debt recovery of departments such as HMRC and DWP. These organisations are experts in debt recovery. Lenders’ primary expertise is in lending.
- The many BBLS lenders are diverse businesses with different clients, experience and debt collection capabilities. The NAO concluded that “each lender’s recovery process will differ, for example, including when and how

[9] Cabinet Office (2022) Strengthening the cross-government functions (progress update, January 2022)

[10] HM Treasury (2021) HM Treasury coronavirus (COVID-19) business loan scheme statistics

[11] BEIS (November 2021) Annual report and accounts

[12] Based on figures published in HM Treasury (October 2021) Autumn Budget and Spending Review 2021

debt collection agencies may be used"[13]. Some will be better than others overall or with certain types of debt.

- The business case for the government to invest in additional debt recovery may be stronger than it is for lenders. Additional recovery of BBLS debt may offer a better return on investment for the government than for a bank that can (a) claim a 100% guarantee and (b) choose to invest in its other commercial activities instead. The government may also want to disincentivise future fraud.

In evidence cited by the Public Accounts Committee, Equifax has set out how the government could approach additional debt recovery in the BBLS to control spending, protect legitimate borrowers and recover more debt for taxpayers[14]. The Fraud Act 2006 and Digital Fraud Committee may also find that evidence useful.

The National Data Strategy can improve counter fraud in the private and public sectors

Data analytics is a vital and increasingly powerful tool in fraud prevention and in the debt recovery that reduces the cost of fraud.

Much of the data that organisations use to identify fraud and in debt collection is provided by the public sector. For example, the National Fraud Initiative matches electronic data within and between public and private sector bodies to prevent and detect fraud. Companies House is another important source of data. Tackling economic crime is one of the main objectives for the planned reforms of Companies House that will greatly improve the quality of data it publishes. Organisations often combine public sector data with credit data and services from credit reference agencies to verify identities, identify fraud and recover debts.

In addition to the welcome reforms to Companies House, the government's *National Data Strategy* is an opportunity to improve further the quality and availability of data it makes available to counter fraud by:

- Working with credit reference agencies and other counter fraud specialists to identify, evaluate and make available datasets with a high potential to improve counter fraud and debt recovery. This could include the much more timely and reliable data HMRC holds on a company's actual financial performance than is available from the often narrow and aged accounts Companies House publishes.
- Pushing forward progress on the creation of a thriving digital identity market for the UK.

[13] NAO (December 2021) The Bounce Back Loan Scheme: an update

[14] Public Accounts Committee (2022) Written evidence submitted by Equifax to the Public Accounts Committee inquiry, Bounce Back Loans Scheme: Follow-up

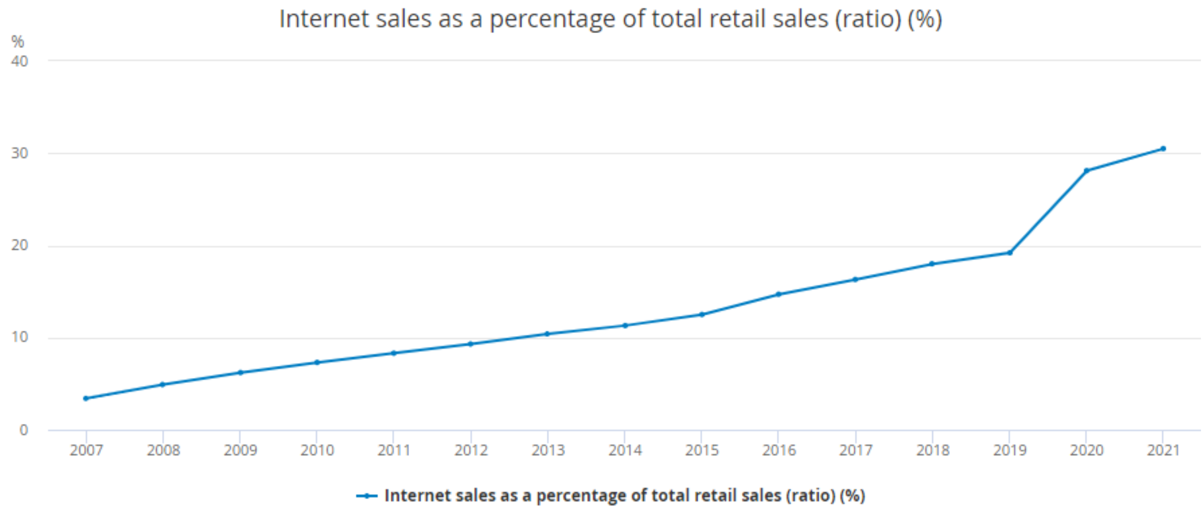
☐ Key to this is that the digital identity trust framework should ensure secure access to identity attributes held by the public sector and private companies.

☐ The DCMS digital identity trust framework should ensure approved organisations can access that data without disproportionate costs or friction for users (such as multiple consent requests) that will deter the uptake of digital identity products.

- Taking forward the proposal in the DCMS consultation, *Data: a new direction*, to "create a limited, exhaustive list of legitimate interests for which organisations can use personal data without applying the balancing test in order to give them more confidence to process personal data without unnecessary recourse to consent". Relying on the consent of those who commit economic crime is not an effective way to counter fraud.
- Progressing work to improve the availability of counter fraud data across borders, an objective in both *Data: a new direction* and the *National Data Strategy*.

Case study two: innovation in data analytics to counter digital fraud in online retail

Lockdowns greatly accelerated the long running trend towards e-commerce. Pre-pandemic, around 20% of total retail sales were online and now it is almost 30%. In one year, 2019-2020, the switch to digital shopping was as big as in the previous seven years combined[15]:



The more shopping moves online, the greater risk of digital fraud to retailers and consumers. For retailers, the risks include:

- **Chargebacks**, where a consumer questions a transaction and asks their bank to reverse it. That means the retailer ships the goods but then

[15] ONS (2022) Internet sales as a percentage of total retail sales (ratio) (%), accessed on 11 April 2022.

ultimately does not get paid. The retailer also has to pay an extra charge to reverse the transaction. Chargebacks can be legitimate (for example the consumer's account has been taken over by a fraudster) or they can be fraud by the cardholder (the consumer buys the goods, gets the delivery but claims they did not).

- **Lost sales**, where a legitimate consumer wants to buy something but cannot because they are unable to pass fraud checks and complete checkout. Or where a consumer abandons a sale, or a retailer entirely, because they dislike the experience they get when doing fraud checks.
- **Costly manual reviews**, where a consumer cannot pass fraud checks and retailers may do a manual review which incurs further costs and takes time.

Retailers have a clear business incentive to protect their customers from fraud, maintain the trust of their customers and keep growing their businesses. While fraudsters are using more sophisticated tools to carry out fraud, retailers can take advantage of better technology and data analytics to improve their services. For example, many retailers use Equifax's Kount product to tackle the risks of fraud. Kount:

- Is a cloud-based service so any retailer, of any size, can switch it on easily and quickly to get the most advanced protection. Cloud-based services are also highly reliable with few or no outages.
- Has tools to prevent fraud through the whole consumer journey in real time from creating an account to logging in, buying and chargebacks. It is also a platform to understand and manage how well your fraud prevention is working.
- Combines big data with advanced machine learning. Kount has data on over 32 billion interactions, on over 1 billion devices and over 1.4 billion digital identifiers. Using machine learning, Kount analyses that data in real time, getting more accurate every day, to detect fraud as it emerges. Kount can identify anomalies and known fraudulent data points to accurately and quickly prevent fraud, while letting the retailer give their legitimate consumers a smooth and easy checkout.
- Is highly effective. Customers report very high reductions in chargebacks, manual fraud checks and false positives.

About Equifax

Equifax is a global data, analytics, and technology company. Headquartered in the US, Equifax operates in 25 countries worldwide. It is a member of Standard & Poor's (S&P) 500® Index, and its common stock is traded on the New York Stock Exchange (NYSE). Equifax employs approximately 11,000 employees worldwide.

In the UK, Equifax Ltd employs around 700 people in Leeds, London and Nottingham. Equifax is one of the largest credit reference agencies, providing services to consumers and clients in the public and private sectors to prevent and counter fraud and to make better financial decisions. TDX Group, an

Equifax company, provides debt data analytics and DCA panel management services that improve recovery rates and deliver the right outcomes for people in debt. In 2015, TDX Group established a joint venture with the Cabinet Office to collect debt owed to the public sector fairly and effectively. Known as Indesser, it has since recovered more than £2.9 billion for over 50 public sector clients. Equifax Ltd and TDX Group Ltd are authorised and regulated by the Financial Conduct Authority.

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