

Securing the future Networked policing in New Zealand

WEDNESDAY 22 NOVEMBER 2006
RUTHERFORD HOUSE • 25 LAMBTON QUAY • WELLINGTON

Police Act Review and Victoria University of Wellington's School of Government

PRESENTATION BY Ron McQuilter Managing Director, Paragon Risk Ltd.

Let me start with a true case.

John is a senior auditor with a government department. In September last year John lodged a complaint with the Police that an employee had stolen \$80,000. After hearing nothing for four months, in January 2006 John wrote to the Police enquiring as to the progress with his complaint. Ten days later they called to say they could not find the file but they would get back to him.

On 26 February 2006 (some 5 months after he laid the complaint) John received this letter.

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Ladies and gentlemen, welcome to the "Real World" of Police fraud investigation in 2006.

I have been asked to cover two topics:

The Growth in "Non Government" groups dealing with Corporate Crime and public law enforcement – Does it, will it, should it, continue to have a role?

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Corporate Crime can also referred to as:

- Economic Crime - PWC
- Misconduct - KPMG
- Dishonesty
- Fraud
- Theft

The PWC Global Economic Crime Study 2005 covering 34 countries and 3,634 interviews with CEO's, CFO's or other managers who were responsible for Crime Prevention in large companies found that 52% had experienced significant Economic Crimes.

The KPMG Integrity Survey 2005/2006 of 465 organisations in New Zealand and Australia found that 53% of all companies had experienced Fraud – up from 45% the previous year.

The New Zealand Insurance Council reports that 10% of all claims have some degree of fraud, costing between \$150 and \$300 million per year. Of course the costs are passed on to the policyholders and some estimates claim about \$80 per policy.

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Let's now look at some Police comments and the NZ Police Key Strategies

- The Independent Weekly on 30 April 2003 quoted the then Head of Auckland Fraud Squad when asked about an alleged 1,000 case backlog as saying:

"Priority must be given to violent crime – I can quite happily live with fraud not being investigated"

- The NZ Insurance Council has a "Memorandum of Understanding" with the Police signed on 5 October 1998. At that time it was agreed that the Police would undertake to investigate an insurance fraud complaint, with conditions, within 3 months of receipt.

In November 2005 I was present in Wellington when the Police National Crime Manager told the New Zealand Insurance Law Association conference that despite the MOU they should not bring their insurance fraud complaints to the Police at all. The rationale he gave was that most insurance fraudsters will plead not guilty in an attempt to protect their future ability to get insurance and finance, and the Police just do not have the resources to take on defended hearing fraud files.

I am told that in China insurance fraud carries the death penalty.

- The Police issue their "Key Strategies" each year which for the past few years have typically focussed on dealing with: Violence / Drugs / Traffic / Organised Crime / Burglary / Theft from and of Cars.

For the past several years Corporate Crime has not been rated a Key Strategy for the Police.

- And, when "John" called the Detective Senior Sergeant who signed the Dear John letter, to enquire why or where his complaint failed, he was told:

"We can't handle it at this time. We can't give a timeframe and We don't like it anymore than you do"

Can it really be that bad? Well let's look at the Police Statistics themselves.

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Police statistics for the year 2005/2006 detail that their resolution rate for dishonesty complaints is 15.5% (Auckland out of 36,407 complaints) and 16.8% (Counties Manukau out of 32,125 complaints), the two largest reporting areas of New Zealand.

That means that in these two districts alone there are some 57,491 complaints per year or 4,790 complaints per month NOT Resolved.

The total Non Resolved Dishonesty complaints for the entire country is 184,965 per year or 15,413 per month.

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We have already heard that fraud is on the increase in NZ at 53% - up from 45% last year. However, it appears the victims are not going to the Police.

The NZ Police National Statistics for 2005/2006 show that the reporting of fraud has for the past several years decreased, down from 17,568 in 2003/2004 to 11,890 last year.

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So if the victims are not going to the Police what are they doing. The answer I suggest is evident by the growth of non-government investigators.

In 1974 when the Private Investigators Act came into force, there were 3 PI's in New Zealand.

- In 1979 there were 5
- 1989 there were 150
- 1999 there were 250
- At the end of October this year there were 384.

My SWOT analysis suggests that this group are turning over more than \$25 million per year in fees.

There are also many in-house investigators with various entities such as Insurance / Banks / Finance / Power / Gas / Utility / Post Office / Couriers / Transport / Hotel Groups / Hospitality / Retail / Receivers etc and again my SWOT analysis estimates they are responsible for about \$125 million in fees/wages/costs.

This means that the private sector has about 1,500 investigators working in Corporate Crime related areas with an estimated cost of \$150 million per year.

NZ Police have 10,300 staff of which 75% are Sworn Police officers and 25% non-sworn support staff. Their budget is \$1 billion per year.

Therefore for every 5 Sworn Police officers there is currently 1 private sector investigator.

The private sector therefore is a substantial, market driven work force, dealing with Corporate Crime and there's no decrease in the reported fraud to us.

Public Law Enforcement and Does it, will it, should it, continue to have a role?

(Slide 8 – repeat 2)

Going back to "John" what were his options?

I have highlighted in the letter what in my view is the only real point why his complaint was not investigated "Staff unavailable to undertake investigations" as from experience I do not believe that any of the other reasons would stop a police officer from acting on a proper complaint.

What if the Police had actually told John from day one that, due to priorities and the lack of "staff available to undertake investigations", they were not in a position to investigate his complaint anytime soon, if at all.

What if they were able to give John the option of waiting in the queue or going privately to an accredited provider of investigation services.

I know from speaking to John he certainly would not have waited 5 months for a "Dear John" letter.

So let's assume for the moment that Corporate shareholders do accept that in the majority of cases, Corporate Crime is a "Cost of Business" and that they need to deal with their own issues!

Also, let's assume that the Police "come out" and admit that they just do not have the resources to adequately investigate Corporate Crime anymore.

At least the public would know where they stand.

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But like many other countries, legislation only permits a Police Officer to execute a Search Warrant and when investigating Corporate Crime, these are often essential.

And around the world various partnerships are being examined. You only need to Google "Public Private Fraud Partnerships" and look at many examples.

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Let's examine what did happen to John's problem:

He came to Paragon after the "Dear John" letter.

We examined all the documents, built the case, interviewed the offender and obtained a statement of admission. We then went back to the Police who subsequently agreed to act only on the basis that the offender maintained his

guilty plea. He did and on 14 September was sentenced to 200 hrs community work and reparation of \$15,000.

No-one is saying this is ideal. But it's the real world now.

- John received the result he wanted – a conviction and reparation, and at less than the cost of investigation.
- A clear message was sent to his other staff.

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But remember that was after 5 months. Imagine if this could be done promptly. What might the benefits to John be:

- Increased potential for recovery
- Criminal and Civil matters investigated contemporaneously
- Speedy complaint resolution and closure
- Increased staff morale due to the successful resolution of the complaint
- Preventive / education components

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What about the Police? I can see a number of benefits also:

- Increased resolution rate for dishonesty offences
- Reduce / remove the backlog
- Increased efficiencies and utilisation of personnel
- Improved response time for other complainants in the queue
- Enhanced service to the public and improved Police morale

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In Summary, what is the current "Corporate Crime" landscape in New Zealand.

- Expert reports conclude that Corporate Crime is on the increase.
- Yet, reported fraud to the Police is decreasing.
- The Police have acknowledged they do not have adequate resources to investigate fraud / dishonesty complaints.
- Market forces are driving the growth in the Private Sector.
- There is now one private corporate investigator for every five sworn Police officers.

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To conclude

What should be the key Strategies for New Zealand Police in resolving Corporate Crime

- They need to study worldwide trends. The one lesson I learned from my research into this subject is that in every case worldwide, the Police are required not just to remain involved, but they need to be the ones leading the change.
- They should accept the current landscape and embrace Public/Private Partnerships.
- And they should look at taking advantage of the huge existing "Private" resource that is already available.

ENDS