CALLING TIME ON BUSINESS CRIME

SAFEGUARDING SMALL FIRMS FOR THE FUTURE

45 **fsb**
YEARS OF SUPPORTING
SMALL BUSINESSES
1974 - 2019

ACKNOWLEDGEMENTS

ABOUT FSB

The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established over 45 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. FSB is also the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed. Our lobbying arm starts with the work of our team in Westminster, which focuses on UK and English policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

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CALLING TIME ON BUSINESS CRIME

Safeguarding small firms for the future

On average, **traditional crime** in England and Wales, such as **burglary** and **criminal damage**, has affected businesses by more than
£14,000
over two years

Up to
3.8 million
incidents of **traditional business crime** each year

Around
50%
of small firms have been a **victim** of at least one crime in the **past two years**

Up to
3.9 million
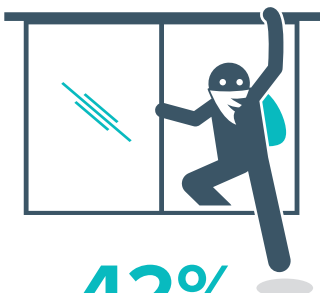incidents of **cyber crime** each year

38%
of small firms say a **lack of confidence** in **police response** means they **did not report a crime**

Up to
£12.9 billion
The annual cost of, **traditional crime against small firms** in **England** and **Wales**

The most frequently-reported types of business crime:

42%
Robbery and Burglary

38%
Theft

36%
Criminal Damage

FOREWORD

For too long, smaller businesses have been the poor relation of crime victims in England and Wales. Yet the amount of crime perpetrated against smaller businesses is quite simply staggering. And the cost of crime to small businesses and to the wider UK economy draws into sharp relief the need for urgent action. FSB research shows that traditional crime, such as robbery and criminal damage, is just as prevalent as cybercrime. In fact, the average cost of traditional crime to a small business is double that of cybercrime. Theft, burglary and cybercrime are the most frequently reported crimes for small businesses.

Rather than being passive victims, many smaller firms recognise that they have agency. FSB research shows that the vast majority of smaller businesses have taken at least one 'deterrent' measure to protect themselves against traditional and/or cybercrime. But they cannot achieve success on their own.

They urgently need the Government to ensure sufficient funding and resources to improve police capability and capacity. The recent Government announcement of an extra 20,000 police officers is a welcome step in the right direction. However, this does not bring England and Wales up to the European average number of police per 100,000 people. Significant extra funding would be needed to achieve that.

Improved data collection on business crime is the essential building block for the design of better policy interventions. This would require a simplified and consistent definition of business crime, a single online reporting hub for all non-emergency crime (building on lessons learned from Action Fraud which is widely recognised as ineffective) and a commitment to a regular, comprehensive business crime survey, following the approach of the Crime Survey for England and Wales.

Police and Crime Commissioners have not been game changers in terms of law enforcement doing more to tackle crime threats to local business communities. That is why we are calling on Government to introduce a code of practice which sets out a performance framework for PCCs. This could include good practice benchmarks on engagement with the local business community.

Last, but by no means least, we are calling for a comprehensive review of the division of responsibilities between different levels of policing in England and Wales. Local forces (with appropriate improvements), overseen by local representatives like a PCC, remain central to ensuring accountability over the majority of policing and ensure that local differences and interests are reflected in policing priorities. But it is clear that cybercrime and fraud require a critical-mass of resources, expertise and coordination that a mosaic of local forces are unable to provide.

The Government's laser focus on crime is welcome. Now is the time to buck the trend and make sure that small businesses share the benefits of tackling crime in all its forms.

Neil Sharpley,
FSB Home Affairs Policy Committee Chair

EXECUTIVE SUMMARY

Smaller businesses across the UK are particularly vulnerable to business crime, which has often been considered the poor relation to other forms of crime. This report demonstrates the extent of small business crime, the type of crimes they experience, the average costs to individual businesses owners and the wider economic impact.

Within the report we share insights gathered through in-depth survey work and qualitative evidence collected from interviews with FSB members and local business representatives. This report is split into five parts. The first part focuses on the extent of crime experienced by smaller businesses. The second part focuses on 'traditional crime'. Examples of traditional crime include: burglary or robbery, theft by a third party, criminal damage to property and in-person processing of fraudulent payments. The third section of this report explores the impact of cybercrime, including phishing, malware and online processing of fraudulent payments. The fourth part looks at the impact of crime on individual businesses, with particular regard to those crimes that small firms say caused the most disruption. This section shows how infrequently such crimes are reported and to whom, and explores the response of the police. The final section of this report assesses how much priority is given to business crime by Police and Crime Commissioners and local constabularies.

Key Findings

Proportion of smaller businesses impacted by business crime

- 49% of smaller businesses in England and Wales – about 2.54 million firms – have experienced at least one business crime in the previous two years

- 34% of smaller businesses in England and Wales – about 1.79 million firms - have experienced at least one 'traditional' business crime in the previous two years

- 20% of smaller businesses in England and Wales – about 1.06 million firms – have experienced at least one cybercrime in the previous two years

- Only 5% of smaller businesses have experienced both traditional crime and cybercrime in the previous two years

Estimated numbers of business crime incidents experienced by smaller businesses per annum

- 3.8 million incidents of traditional business crime

- 3.9 million incidents of cybercrime

Small business experience of 'traditional' crime

- Of those smaller businesses that experienced 'traditional' crime in the previous two years, the most frequently-reported types are:

  – Robbery and Burglary (42%)

  – Theft (38%)

  – Criminal Damage (36%)

- 83% of all traditional business crime comprised of robbery and burglary, third party theft and criminal damage to property

Small business experience of cybercrime

- Of those smaller businesses that experienced cybercrime in the previous two years, the most frequently-reported types are:

  – Phishing – including spear phishing (51%)
  – Malware (36%)
  – Processing fraudulent payment online (29%)

Regional analysis

- The experience of business crime in the regions of England and Wales is varied.

  – In Wales 40% of smaller businesses were hit by crime over a two-year-period but the figure was higher in five English regions, with more than half of firms saying they had experienced crime over the same period

  – In all regions of England, small businesses were significantly more likely to experience traditional crime than cybercrime, with the largest differential being found in the East Midlands with a difference of 51% and the lowest differential being identified in the South West and the South East with a difference of 19%

Sectoral analysis

- In all sectors but two the proportion of small businesses impacted by traditional crime is higher than for cybercrime

- In the Information and Communications sector and the Professional, Scientific and Technical sector, the proportion of small businesses impacted by cybercrime is higher than that for traditional crime. For all other sectors the proportion of businesses experiencing business crime is greater than that of businesses experiencing cyber crime

- For the Wholesale and Retail sector (where the incidence of traditional crime is higher than that of cybercrime) there is a 55 percentage point difference in the proportion of smaller businesses impacted by traditional crime as opposed to cybercrime, while for the Accommodation sector there is a 51 percentage point differential

Cost of business crime for victims

- For traditional crime:
  – The average cost per affected business was £14,360 over two years
  – The average cost per crime is £3,340
  – The per annum aggregate direct cost of traditional crime in England and Wales is £12.9 billion

- For cybercrime:
  – The average cost per over two years business was £7,093 over two years
  – The average cost per crime is £972
  – The per annum, aggregate direct cost of cybercrime in England and Wales is £3.75 billion

Action taken by smaller businesses to protect themselves against 'traditional' business crime

• Nearly three-quarters (71%) of smaller businesses have taken at least one 'defensive' measure against traditional business crime

• The most frequent security measures taken by smaller businesses are:
  – Installed or upgraded physical security, e.g. locks, alarms and CCTV (46%)
  – Improved insurance cover (12%)
  – Introduced anti-fraud measures (12%)

• Some of the least frequent security measures taken by smaller businesses include:
  – Seeking advice from the police about crime prevention (9%)
  – Joining a Business Watch, Business Crime Partnership or Community Safety Partnership

Action taken by smaller businesses to protect themselves against cybercrime

• 90% of smaller businesses in England and Wales have invested in at least one cyber-resilience measure to protect their business

• The average number of cyber resiliencemeasures undertaken by smaller businesses is around five

• Some of the most common deterrence measures undertaken include: security software installed (65%), regular software updates on IT systems (60%) and regularly backing up data and IT systems (59%)

• Some of the least common deterrence measures undertaken include: sourcing advice from the police (4%), sourcing advice from Government's National Cyber Security Centre (4%), sourcing advice from Government's Cyber Aware or Get Safe Online initiatives, specific measures to reduce the risk exposure to bribery (4%) and application of a recognised security standard or Cyber Essentials (2%)

The most disruptive crimes on smaller businesses

• The most impactful crimes are those which create the most cost and disruption to smaller businesses. The top three are:
  – Theft (23%)
  – Burglary (20%)
  – Cybercrime (20%)

Reporting crime

• Of those smaller businesses who suffered from at least one disruptive crimein the previous two years:
  – Just over a fifth (21%) did not report the crime to any authorities
  – 52% reported the crime to the police
  – 7% reported the crime to Action Fraud

• The most common reasons given for not reporting an disruptive crime to police include:
  – No confidence in police response (38%)
  – No plans to make an insurance claim (38%)
  – Too busy (32%)

Where a disruptive crime has been reported to the police

• In around one in ten instances (11%) the police did not attend the scene or provide a crime number

• In 13% of cases police attended at least 24 hours after the crime was reported to them

• In 15% of cases the police attended within one hour of the crime being reported to them

Follow up action by the police

• In 45% of cases, the police took no further action

• In a further 44% of cases, the police either did not identify the perpetrators or they did identify them but failed to make any arrests

• Only in around one in ten cases (11%) did the police investigate and arrest the perpetrators

SUMMARY OF RECOMMENDATIONS

The recommendations within this report fall into three categories:

• How to improve transparency and accountability

• How to build up police capacity and capability

• How to improve organisation, governance and accountability

Information and transparency

In order to better tackle crime against small businesses, both policymakers and law enforcement need a clearer idea of its scale, scope and nature. Currently, the available data on the criminality suffered by smaller businesses is partial. It is not comprehensive enough to be useable by policymakers and the police for planning the distribution of law enforcement resources. Nor is it robust enough for smaller businesses and their representatives to use to hold the authorities accountable for their performance.

• **The Home Office, the National Business Crime Centre (NBCC) and the Office for National Statistics (ONS) should work together to develop a business crime equivalent of the Crime Survey for England and Wales (CSEW).** This should build on the Home Office Commercial Victimisation Survey. The current Home Office Commercial Victimisation survey is limited in scope – only covering a small number of sectors and does not break data down by the size of business. The scope of the survey should cover all forms of business crime. There is also a need to build a centre of excellence for expertise on national business crime data.

• **Review and further refine the recently adjusted definition of business crime.** Successful data capture and analysis relies on an easily understandable definition of business crime. We welcome the recent simplification of the definition of business crime to '*Any criminal offence, where a business, or person, in the course of their employment and because of their employment is a victim'.* There may be a case for this definition to be supported by Home Office codes for business crime. We would encourage wide consultation on the definition of business crime to ensure it is fit for purpose.

• **Accelerate the roll-out of the Metropolitan Police Reporting Hub (a single portal for the reporting of all non-emergency crime) and evaluate it to learn lessons from Action Fraud.** User experience must be at the heart of this new portal. Subject to successful roll-out, Action Fraud should ultimately be subsumed within this new reporting portal.

• **The Home Office should legislate for a backstop power to require the 43 police forces in England and Wales to record and publish (at the neighbourhood level) data on crime against business, if the police do not do so already.** The data, gathered quarterly, should be published.

• **Ask HM Inspectorate of Constabulary (HMICFRS) to conduct a thematic review of the police response to business crime across England and Wales.** The findings should be incorporated into HMICFRS's future remit and regular 'Peel' inspections of English and Welsh constabularies of an evaluation of specific efforts against business crime.

• **Every three years the Home Office should utilise the data from the proposed Business Crime Survey of England and Wales (BCSEW), the police recorded crime data and the reports of the HMICFRS, conduct an evaluation of the impact of business crime.** It should look to evaluate and quantify the financial, social and psychological impact on individual small businesses, owner-managers and employees in smaller firms. This work would aim both to estimate the aggregate 'external' cost of crime and the wider 'social' cost to communities, localities, regions and the national economy. The research would – over time – build a longitudinal picture of the total cost of crime to businesses in England and Wales. The Home Office's recent work attempting to estimate the 'economic' and 'social' costs of crime provides a strong foundation for this more detailed work on business crime. The body of evidence would provide a detailed base for future public spending bids by the Home Office for funding for law enforcement.

Police capacity and capability

A step change in police resourcing is needed if the police are to properly tackle crimes against business, in addition to other demands on their existing resources. Many crimes, such as cybercrime, are inherently difficult to police and require additional capacity and capability. And in the rapidly-changing crime environment, the law needs to keep up to date with developments and provide law enforcement with ample legal authority and contemporary tools to tackle crime.

- **The Government should provide additional funding to the police with the aim of increasing the average number of police officers in England and Wales up to 352 per 100,000 of the population.**[1] As of September 2018, there were 122,402 police officers. We estimate this number would need to increase to around 208,087 to achieve the EU average of 352 police officers per 100,000 of the population.[2] This equates to an increase of circa 85,600 police officers, which means the overall policing budget would need to increase to a total of £21 billion.[3] This should be achieved over a five-year timeframe.

- **Consider making further refinements to the police funding formula**. Insert a new factor based upon the size of the small business population in the relevant locality. This will embed – in future funding allocations – the importance of crime against the small business population.

- **Make future public spending decisions about the funding of policing upon the basis of the principle of 'social investment'** i.e. explicitly factor-in the costs in the medium-to-long-term of not reducing crime (including dynamic considerations such as lost economic and jobs growth and social expenditures that would result if crime levels persist).

- **Police forces should make the 'business crime' Single point of Contact (SpoC) position a full-time dedicated role and professionalise it.** Ideally SpoC should be supported by a small team to help build up the capacity of each constabulary to engage with their local business community more effectively. The NBCC needs to build-up its role further as the central node in a network of SPoCs across all English and Welsh forces as they become full-time posts, working to spread best practice among SPoCs. To help professionalise the SPoC role, the NBCC should work with business groups and the College of Policing to establish a 'business crime SPoC accreditation' for all those in the role.

- **Government should put in place a permanent stream of funding to constabularies to ameliorate much of the financial burden of cross-boundary collaboration**. Local constabularies face a dilemma when balancing spending resources on supporting cross-boundary investigations and focussing on local (within jurisdiction) problems.[4] If this tension can be relieved through more permanent hypothecated funding from central government, this would help ensure more resource from the general allocation to constabularies can be spent on local priorities and effective cross-boundary policing can be maintained and preferably enhanced through planned increases in the budget.[5]

- **Establish a fully coherent approach to the procurement and deployment of ICT along with encouragement to exploit opportunities for the use of big data by the 43 forces in England and Wales.** We need to see the implementation of a more aggressive strategy led by the NPCC and supported by the Police ICT Company, Home Office, APCC and College of Policing, with

1   In mid-2018 England's population was estimated to be: 55,977,000. Wales's population was estimated to be: 3,139,000. This is a total population is: 59,116,000. Source: ONS. Population estimates for the UK, England and Wales, Scotland and Northern Ireland: mid-2018. 2019. Accessible at: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2018#englands-population-continued-to-grow-at-a-faster-rate-than-the-rest-of-the-uk-in-mid-2018
2   FSB calculations based upon Eurostat data. Source: Eurostat. Crime statistics explained: Crime statistics. 2018. Accessible at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Crime_statistics
     An analysis by the House of Commons Library including more European countries found that the average number of police across the larger number of European countries is 352. Source: Allen, G and Zyed, Y. Police Service Strength. Briefing Paper No 00634. 2019.
3   The current budget of £12.3billion (excluding funding for counter terrorism) pays for approximately 122,400 police officers. A funding per-capita calculation suggests that the overall budget for policing will need to rise to around £21 billion to pay for another 85,600 police officers.
4   Home Office. Statutory Guidance for Police Collaboration. 2012. Accessible at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/117559/police-collaboration.pdf
5   The Government already provides a stream of funding for 'Strengthening the response to Organised Crime'. In 2018-19, £42 million is being provided to English and Welsh constabularies. Source: Home Office. Police Funding for England and Wales 2015-2019: statistical bulletin 13/18. 2018.

binding procurement and deployment requirements on the 43 forces, if necessary, and reform to HMICFRS so the latter can oversee the technological improvement of policing. The disjointed approach to ICT and data amongst the 43 forces is a barrier to effectiveness. Effectiveness requires frictionless interoperability between the systems used by the different forces. The ability to scale up best practice swiftly is ever more important. To monitor progress, HMICFRS should build up its own internal technological capability with a Police Technology Unit (leveraging in the best private sector expertise) and undertake public inspections benchmarking the performance of constabularies on movement towards a fully interoperable technology suite and the optimisation of the use of resources like big data and tools such as data analytics.

- **Commission an independent evaluation of the key laws in England and Wales relevant to organised crime** in order to identify the gaps and inadequacies in the current legal framework and make recommendations for improving the current corpus to Parliament.

- **Establish a review looking at different aspects of how individuals and the private sector might play a bigger role in supporting efforts to increase the enforcement of the law against criminals**. The three strands would be as follows:

  – Ways in which private prosecutions for simple low-value crime can be made easier with a pilot being undertaken as part of the Digital Economy Act initiatives being considered across government.

  – Identification of where current practices can be simplified to enable more civil procedural steps to be taken by victims to both gather relevant evidence for police prosecution purposes or to take prosecutor or civil action against perpetrators themselves.

  – Tackling barriers to greater-levels of collaborative working between the police and private sector investigatory capacity to supplement the work of the police

Organisation, governance and accountability

The introduction of Police and Crime Commissioners (PCCs) has not brought about the hoped-for shift towards law enforcement doing more to tackle the crime threats to local business communities. Improvements to the current governance structures around policing to improve accountability are needed. Changes to the organisation of policing would help relieve some of the rapidly changing and expanding demands on local constabularies. This would release more resources at the local level for local priorities such as 'traditional' crimes perpetrated against the small business community. An effective way of improving the accountability of policing to the local business community is through strengthening the relationship between local business communities and the relevant PCC. Additionally, bolstering the authority of the PCCs over local policing priorities is key.

- **Put in place a performance framework for judging the effectiveness of PCCs.** This should take the form of a code of practice, including good practice benchmarks for engagement with the local business community, whether a PCC has a specific plan for dealing with crime against businesses and the extent to which the 'voice' of local small business is represented in the planning and operational activities of the PCC. Examples could include an expert business advisor working in the PCC's office or a forum for local enterprises to inform and influence the activities of the PCC. The APCC, Home Office, College of Policing, HMICFRS, the NPCC and the NBCC should collaborate on the creation of such a code. HMICFRS should monitor the levels of adherence, among the PCC community, to the code.

- **A recall mechanism for PCCs who are failing or who are not dealing with the priorities of their electorate should be put into legislation.** A threshold of a fifth of the relevant electorate should be enough to trigger a ballot. A 'backstop' power for the local electorate over their PCC will ensure ultimate accountability without having to wait for the next PCC election cycle if a PCC is significantly underperforming. Such a power will help ensure PCCs are delivering what the local population needs.

- **Government should toughen the duty on Chief Constables to follow the crime priorities of the relevant PCC** and legislate to enable the Home Office to experiment with performance-related-pay (PRP) for Chief Constables. A pilot should be established with a small sample of PCCs given the power to utilise this system to encourage Chief Constables to focus on the priorities of their local communities.

- **Set up a comprehensive review of the division of responsibilities between different levels of policing in England and Wales.** The focus should be on establishing whether the policing of some types of crime might be best redistributed to other levels, whether those levels should be sub-regional, regional or national and what new institutional structures should be put in place to give effect to the organisational change it identifies as necessary. Local forces (with appropriate improvements) overseen by local representatives like a PCC remain central to ensuring accountability over the majority of policing. It is critical that local differences and interests are reflected in policing priorities. However it is clear that crimes such as cybercrime and fraud require a critical mass of resources, expertise and coordination that a mosaic of local forces are unable to provide.[6] Therefore, within the next six months the Government should establish a time-limited expert-review to bring forward recommendations for structural changes to policing. Its conclusions (including relevant draft legislation) should be presented to Parliament within two years of starting its work.

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6   Organisations like the Police Foundation have made a strong case for taking the locus of policing fraud away from local constabularies and making it regional. Source: Skidmore, M., Ramm, J., Goldstraw-White, J., Barrett, C., Barleaza, S., Muir, R and Gill, M. More than just a number: improving the police response to victims of fraud. 2018.

INTRODUCTION

Crime against small business is a largely hidden story. It does not often make headlines and it is not prioritised by law enforcement. Yet it is of huge significance, not only for the businesses directly affected (including the owner and employees), but indirectly, on the economy as a whole. Crimes perpetrated against small businesses have wider detrimental impacts (short and long-term) on local communities and their prosperity. The neglect of crime committed against smaller enterprises is, in part, a result of the lack of data about the scale, scope and nature of such crime. This has ensured that smaller businesses remain the poor relation of crime victims in England and Wales.

Drawing on data collected from smaller businesses across England and Wales, this report provides the most comprehensive picture, to date, of:

- The quantity and nature of small business crime
- The detriment business crime generates
- How small firms are reducing their risk
- The effectiveness of the police response

This report reveals that there are around 3.8 million 'traditional' crimes committed against smaller businesses in England and Wales each year. And there are around 3.9 million cybercrimes (both computer misuse and cyber-enabled) committed against smaller firms each year. Together, these 7.7 million crimes cost smaller firms around £17 billion a year in direct costs. Notably, the cost of traditional crime to smaller businesses is double the cost of cybercrime.

In addition to the quantified costs, crime creates a number of wider, indirect, 'intangible' or second-order costs, such as staff absence, lost orders, supply chain disruption, reputation damage and business planning disruption. As such, the true cost of business crime is much greater than many, including the police and policymakers, consider it to be. Law enforcement bodies lack understanding of the financial, psychological and social harm that business crime creates for individuals, communities and the economy – both in the short and long-term.

FSB welcomed the recently updated Economic Crime Plan. The focus on improving capabilities, honing in on strategic priorities, clarifying definitions, increasing private sector engagement, improving the police response to Fraud and developing a long term data/research strategy, are all themes we have identified in relation to tackling business crime. Specifically the allocation of £48m to develop a world class National Data Exploitation Capability should have benefits for tackling business crime.

CRIME AGAINST SMALLER BUSINESSES IN ENGLAND AND WALES

Crime is a very significant problem for smaller businesses in England and Wales which, in turn, affects communities and the wider economy. The negative consequences of crime do not just fall on individual businesses, their owners and employees. They also affect customers and suppliers, family members, communities and the wider economy. Persistent and high crime rates have long-lasting, detrimental impacts on the levels of social capital across a community and undermine the institutional foundations of enterprise and prosperity. They can push neighbourhoods into decline and, more broadly, negatively impact on national prosperity. [7, 8]

The direct 'external costs' and indirect 'social costs' of business crime

Business crime has both short and long-term consequences for the organisations and individuals affected by it. These include financial, material and psychological costs. These direct costs are called 'external costs':[9]

> *"External costs are those costs that have been involuntarily imposed on...[the]... crime victim...by another (an offender). For example, the external costs of a robbery might include the value of the goods stolen, lost productivity, injuries, psychic harms sustained by the victim, and the value of time spent dealing with the aftermath of the robbery (cancelling credit cards, obtaining a new driver's license, etc.)..."*

Crime can drive small firms out of business completely.[10] Consequently, owners suffer the trauma of losing their business, income and security, and employees their jobs. But the insolvency of a business can have wider impacts for a local economy and community. These 'social costs' of crime are described in more detail in the next section.

The impacts of crime against business are not confined to the enterprise itself (including those who work for it and own it). Crime has wider detrimental effects or 'social costs' on local communities and economies, especially where it is frequent and persistent:[11]

> *"...high crime rates...discourage private investment...which has the effect of lowering both the quantity and quality of available employment...may induce geographically mobile higher wage earners to leave an...area...[and]...may destroy the social fabric of communities, diminishing investments in human capital and resulting in low labour market attachment."*

Crime and its prevalence have a pernicious effect on the long-term prosperity of a society. The prevalence of violence and organised criminality has particularly negative consequences for commercial activity:[12]

> *'Violence, racketeering, organized crime, and terrorism all constitute substantial disincentives to private investment and economic transactions.'*

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7   Business-owners were asked about their experience of crime against their business in the previous two years.
8   For the purposes of this research 'business crime' and 'crime against business' and 'crime perpetrated against business' are terms used interchangeably. Further, for the survey which underpins this report, the definition of 'business crime' or 'crime against business' used was: 'Crime(s) committed against a commercial enterprise (its assets and/ or activities), the property of the enterprise or the owners and workforce (when acting in the 'course of business').
9   Chalfin, A. The Economic Costs of Crime, in The Encyclopaedia of Crime and Punishment. 2016.
10 Bressler, M S. The Impact of Crime on Business: A Model for Prevention, Detection & Remedy Journal of Management and Marketing Research. No date given.
11 Chalfin, A. The Economic Costs of Crime, in The Encyclopaedia of Crime and Punishment. 2016.
12 WEF. The Global Competitiveness Report 2015–2016: Drivers of Long-run Prosperity. 2016.

Ultimately, high levels of crime, and a perceived lack of action by law and order organisations to acknowledge and tackle it, will inevitably erode trust among small business communities. There is already considerable upset among small businesses across England and Wales regarding the inability of the police to deal with the significant amount of criminal activity against them.

Home Office estimates of the cost of crime

In 2018, the Home Office estimated:[13]

> *'The total costs of crime in England and Wales in the 2015/16 are...
> approximately £50bn for crimes against individuals and £9bn for crimes
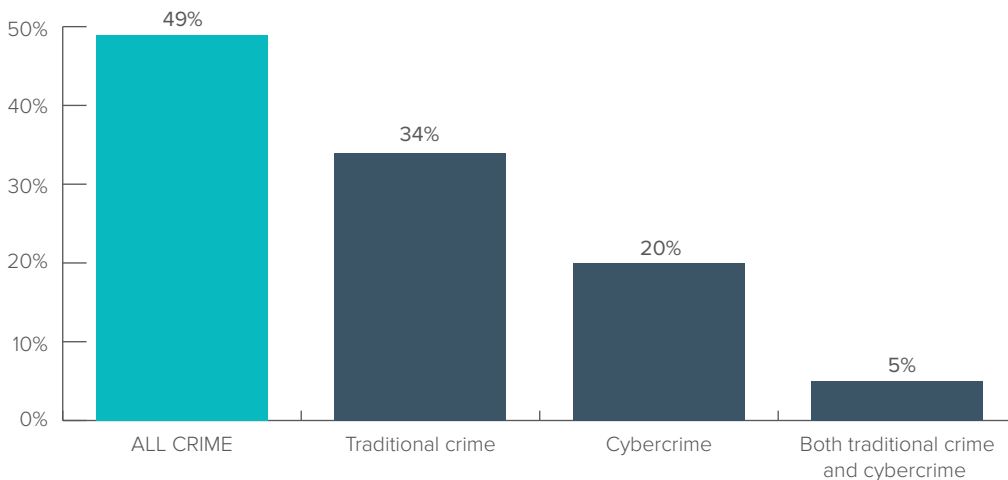> against businesses.'*

The Home Office research did not differentiate between the cost of crime to smaller and larger businesses. Unlike FSB's research, the Home Office estimate also includes costs associated with the anticipation of and response to crime.[14] More profoundly, the data used to estimate these costs was confined to a handful of sectors due to the limitations of the Home Office's Commercial Victimisation Survey, on which the research relies heavily. As a result, the Home Office estimate of the cost of business crime, which is only around half of FSB's current estimate of £17 billion per year, is likely to be a significant underestimate.

The Home Office research highlights the current absence of good data about small business crime in England and Wales, including its scale, scope, nature and impact. The lack of adequate information is a significant handicap to making optimal decisions about the allocation, organisation and deployment of policing capability and resources.

The scale, scope, nature and impact of crime against smaller business

Around half (49%) of smaller businesses in England and Wales say they have been victims of crime at least once in the previous two years. This represents around 2.54 million small firms.[15] More than a third (34%) say they were victims of 'traditional crime' (i.e. non-cyber) and one in five (21%) say they were victims of cybercrime (Figure 1).

Figure 1: Experience of crime by smaller businesses in England and Wales in previous two years[16]
Source: FSB business crime survey 2019

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13 Heeks, M. et al. The economic and social costs of crime: second edition – Research Report 99. 2018.
14 The Home Office's overall cost estimates of crime against business take into account the 'Anticipation' (e.g. insurance and other defensive measures), 'Consequence' (i.e. the direct impacts on people and organisations) and 'Response' (i.e. the policing and criminal justice system) costs of crime. Consequently, they take in a wider range of cost points than the 'business costs' which survey respondents reported to FSB. Source: Heeks, M. et al. The economic and social costs of crime: second edition – Research Report 99. 2018.
15 BEIS business population data shows that in 2017 there were around 5.2 million businesses in England and Wales, 5,198,000 were smaller (i.e. SME) businesses. Source: Rhodes, C. Business Statistics: Briefing Paper Number 06152. 2018.
16 49% of 5.2 million is 2.55 million. Based on 5.2 million smaller firms in England and Wales.

There is a notable difference between the incidents of victimhood among smaller businesses of different sizes. Figure 2 shows that as the size of business increases, so too does the probability of experiencing business crime. This applies to experience of both traditional crime and cybercrime. This is no doubt, in part, because businesses with more employees are more likely to have larger business premises and a larger footprint in the market and community, and are consequently a more obvious target for criminals.

However, smaller firms – although generally less frequently affected – are also less able to cope with the impacts of crime and disruption, compared to their larger counterparts.

Figure 2: Experience of crime by smaller businesses in England and Wales in previous two years – by number of employees
Source: FSB business crime survey 2019

	ALL	Sole traders	Up to 10	11 to 20	21+
ALL CRIME	**49%**	**32%**	**52%**	**58%**	**77%**
Traditional crime	34%	20%	38%	41%	50%
Cybercrime	20%	15%	20%	27%	43%

Geographical distribution of the experience of crime

Across the regions of England and in Wales, there is considerable variation in the proportion of smaller businesses that say they have experienced crime in the previous two years (Figure 3a). In Wales, two in five (40%) say they have been victims, compared to five English regions where over half of small firms say they have experienced criminality in the same time period.

Figure 3a: Experience of crime by smaller businesses in England and Wales in previous two years – by nation/region
Source: FSB business crime survey 2019

Nation/Region	OVERALL		Traditional		Cybercrime	
	%	Number[17]	%	Number	%	Number
England & Wales	49	2.54 million	34	1.79 million	20	1.06 million
England	49	2.47 million	35	1.74 million	21	1.04 million
Yorkshire & NE	56	315,506	43	242,264	18	101,413
London	51	559,008	39	427,477	19	208,258
North West	52	283,277	36	196,115	25	136,191
West Midlands	52	233,041	40	179,262	20	89,631
East Midlands	51	187,540	39	143,413	14	51,482
South East	47	410,590	31	270,814	22	192,191
South West	48	262,202	32	174,802	23	125,639
East Anglia	44	248,501	28	158,137	18	101,660
Wales	40	79,454	28	55,618	13	73,421

17 Calculations based on UK Government official business population statistics for 2018, available at https://www.gov.uk/government/statistics/business-population-estimates-2018

Figure 3b shows that the relative impact of traditional crime versus cybercrime also varies across different parts of England and Wales. For example, traditional crime appears to more heavily dominate in London and Yorkshire & NE regions.

Of those small firms that say they have experienced crime in the last two years, 78 per cent of businesses in the East Midlands say the crime they experienced was traditional in nature, compared to just 27 per cent for cybercrime (a difference of 51%). However, in the South East (66% traditional, 47% cyber) and South West (67% traditional, 48% cyber), that difference is only 19%.

Figure 3b: Breakdown of crime type (traditional versus cybercrime) experienced by smaller businesses in England and Wales in previous two years – by nation/region
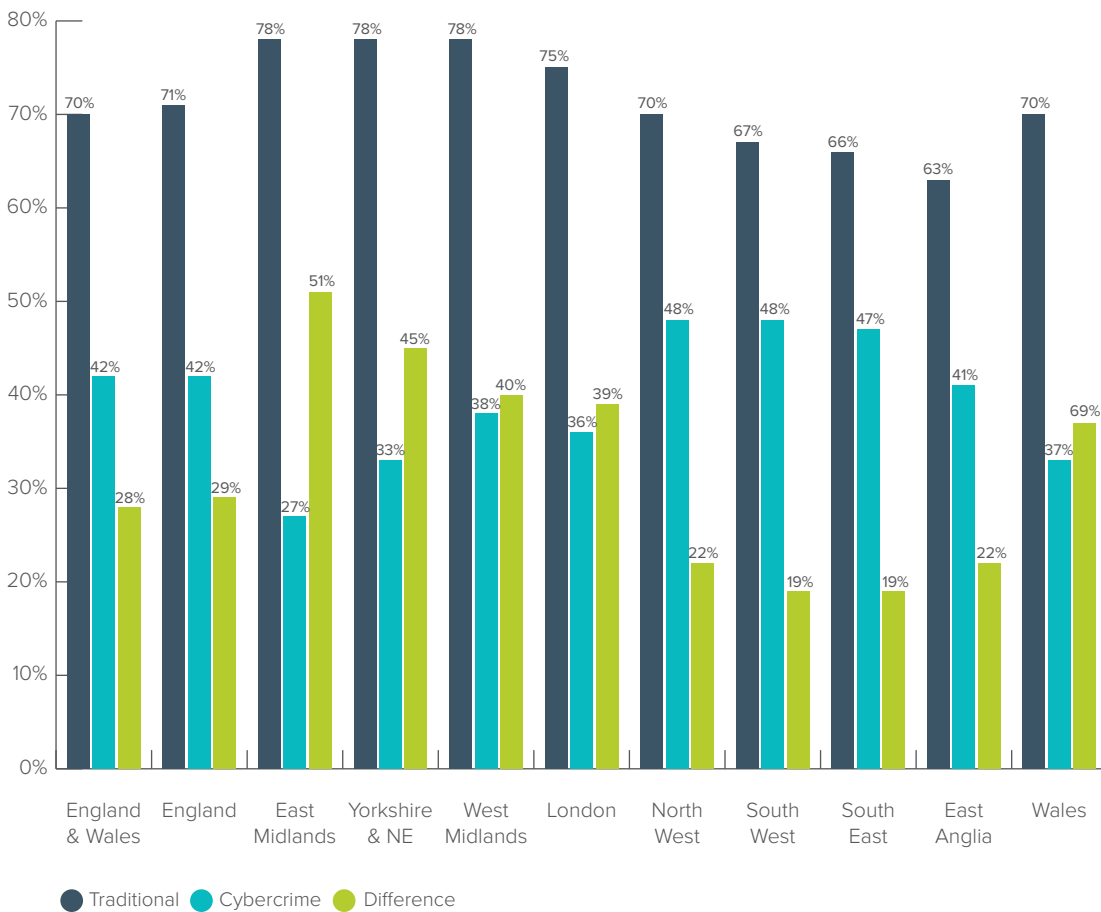**Source:** FSB business crime survey 2019

Figures 3a and 3b offer insights into the relative impact of both traditional crime and cybercrime on smaller businesses in different regions and, consequently, how Police and Crime Commissioners and police constabularies operating in those regions might best target their resources.

Sectoral distribution of the experience of crime

Figure 4a shows how experience of crime varies widely across key small business sectors. Of these sectors, the Wholesale and Retail sector appears to be most frequently affected, with three in five (59%) smaller businesses in this sector saying they have experienced crime in the last two years. At the other end of the spectrum, only a third (33%) of those working in the Professional, Scientific and Technical sector say they have experienced crime over the same period.

However, Figure 4b also shows that the relative impact of traditional crime versus cybercrime varies dramatically across different sectors. For example, of those that say they have experienced crime in the last two years, 85 per cent of businesses in the Wholesale and Retail sector say the crime they experienced was traditional in nature, compared to just 29 per cent for cybercrime (a difference of 55%, traditional crime dominant). However, conversely, just 34 per cent of those operating in the Professional, Scientific and Technical sector say the crime they experienced was traditional, compared to 74 per cent for cybercrime (a difference of 39%, cybercrime dominant).

Figure 4a: Experience of crime (traditional versus cybercrime) by smaller businesses in England and Wales in previous two years – by selected sector[18]
Source: FSB business crime survey 2019
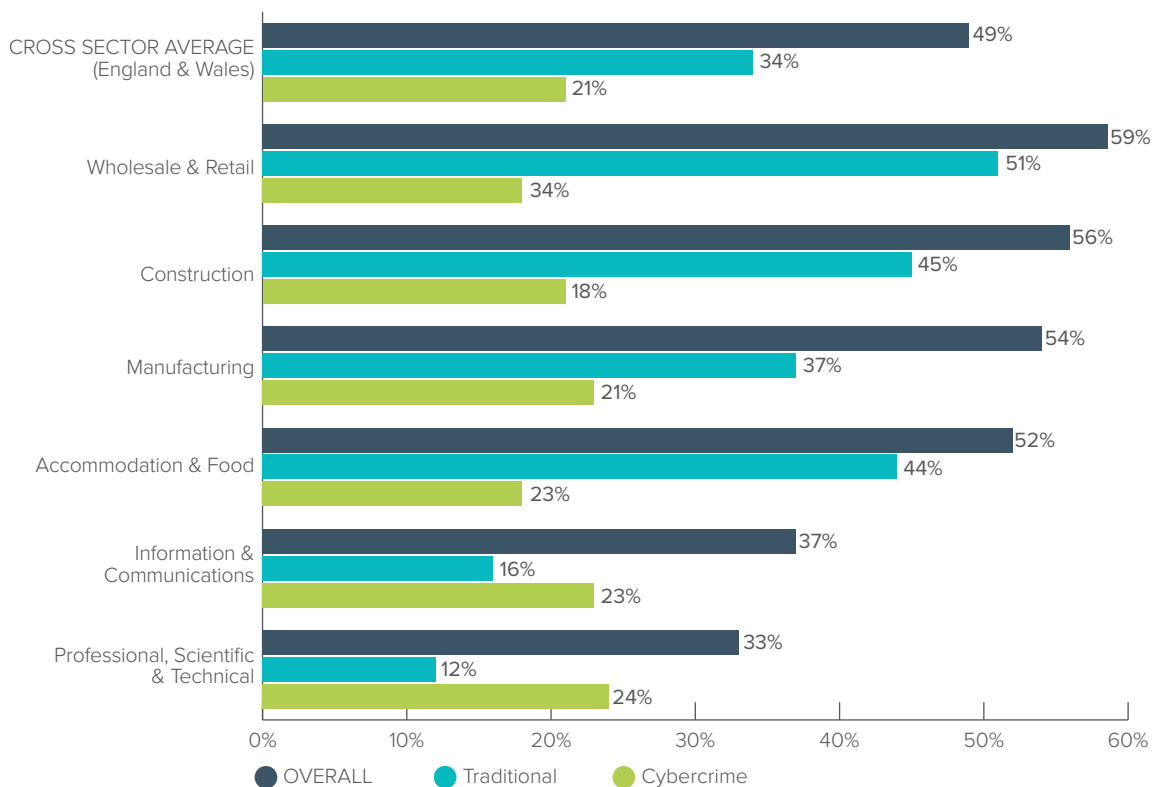
Figure 4b: Breakdown of crime type (traditional versus cybercrime) experienced by smaller businesses in England and Wales in previous two years – by selected sector[19]
Source: FSB business crime survey 2019

Sector	Traditional	Cybercrime	Difference
CROSS SECTOR AVERAGE (England & Wales)	70%	42%	28%
Wholesale & Retail	85%	30%	55%
Accommodation & Food	85%	34%	51%
Agriculture	81%	37%	44%
Construction	80%	38%	42%
Manufacturing	68%	43%	25%
Information & Communications	43%	63%	-20%
Professional, Scientific & Technical	35%	74%	-39%
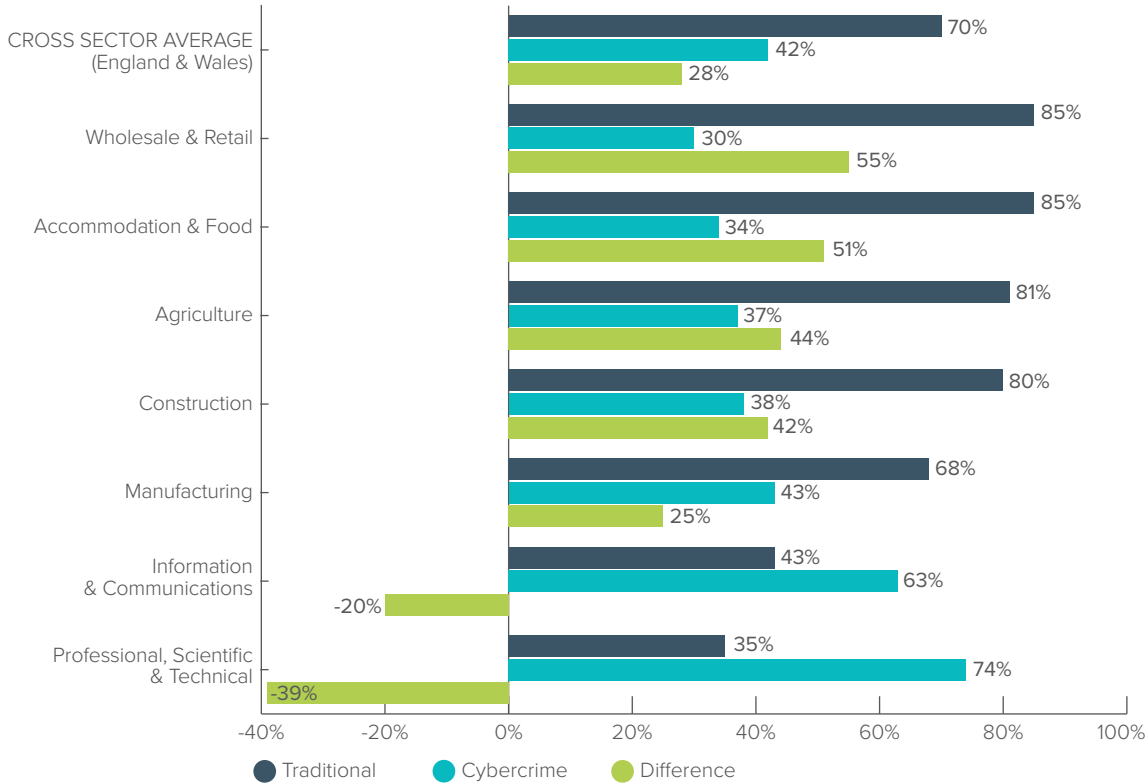
The sectoral variation in both the level and nature of crime experienced suggests that Police and Crime Commissioners and the police would benefit from better understanding the make-up of the business community in their jurisdiction. Understanding their local business population is likely to offer an insight into the nature of business crime in their area. Consequently, resource and planning decisions – whether they be about awareness- raising, prevention advice or pro-active problem solving – can be adjusted accordingly.

19 Proportions for the Agricultural sector should be seen as indicative only, due to the small sample size captured in the survey.

TRADITIONAL CRIME (NON-CYBER)

Figure 5a shows that, of those small firms that experienced traditional crime in the previous two years, the most frequently reported types are robbery/burglary (42%), theft (38%) and criminal damage (36%). In fact, these crimes are reported by a combined 83 per cent of all those that experienced traditional crime[20].

Further, Figure 5b suggests that the risk of these types of crime increases with size of business. The exception to this rule is theft, which drops for businesses larger than 20 employees. Presumably, at this size, businesses may have both the resources to invest in counter-measures and the footprint to make doing so economically worthwhile.

Figure 5a: Types of traditional (non-cyber) crime experienced by smaller businesses in England & Wales in previous two years
Source: FSB business crime survey 2019

Figure 5b: Types of traditional (non-cyber) crime experienced by smaller businesses in England & Wales in previous two years – by size
Source: FSB business crime survey 2019

Type of crime	ALL	Sole trader	Up to 10	11 to 20	21+
ALL criminal damage, theft or burglary	**83**	**77**	**84**	**90**	**80**
Burglary or robbery	42	30	42	45	51
Theft	38	40	36	43	37
Criminal damage (property)	36	26	35	42	47

20 Not mutually exclusive.

Volume and cost of traditional crime against smaller firms

Of those small firms who say they have experienced traditional crime over the previous two years, the majority say they have suffered one or two incidents during that time. However, the extreme high frequency of crime suffered by a minority of businesses raises the mean number of incidents per business to 4.3 (Figure 6).[21]

Based on figures previously set out in Figure 1, this represents around 3.8 million traditional crimes against smaller firms each year.[22]

Figure 6: Number of traditional (non-cyber) crimes experienced by smaller businesses in England & Wales in previous two years
Source: FSB business crime survey 2019

Number of incidents	Percentage	MEAN	MEDIAN
1-2	57		
3-4	21		
5-6	10	4.3	1-2
7-8	2		
9-10	4		
More than 10	7		

Figure 7a shows that, of those businesses in England and Wales that experienced traditional crime in the previous two years, around two thirds (63%) suffered resultant losses of at least £1,000.

In fact, on average, each affected business suffered losses of £14,360 during this period, or £3,340 per crime. This adds up to an aggregate cost of traditional business crime of almost £13 billion per year (Figure 7b). A concerted effort by police and other law enforcement organisations to halve the direct cost burden of traditional business crime would put more than £6 billion back into the hands of small businesses each year. This would allow businesses to make greater investments in capital and innovation, and take on new workers, creating substantial ongoing positive benefits for the UK economy.

Figure 7a: Per business cost of traditional (non-cyber) crimes experienced by smaller businesses in England & Wales in previous two years
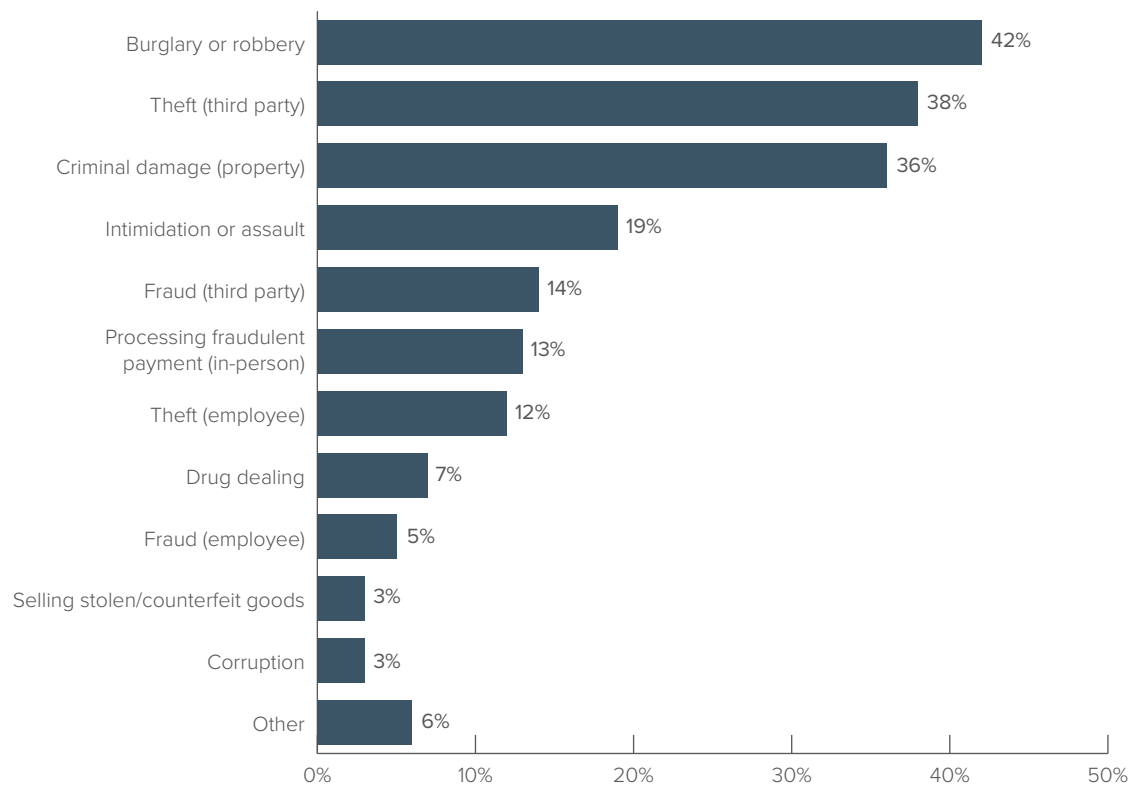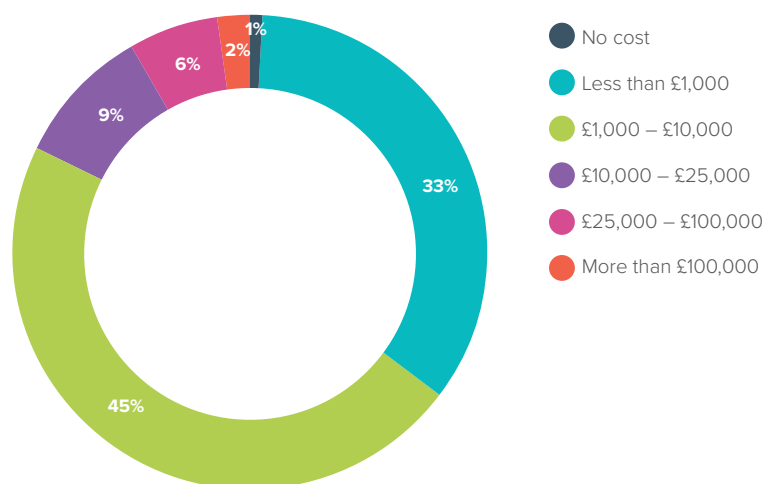**Source:** FSB business crime survey 2019

- No cost
- Less than £1,000
- £1,000 – £10,000
- £10,000 – £25,000
- £25,000 – £100,000
- More than £100,000

Figure 7b: Aggregate cost of traditional (non-cyber) crime experienced by smaller businesses in England & Wales
Source: FSB business crime survey 2019

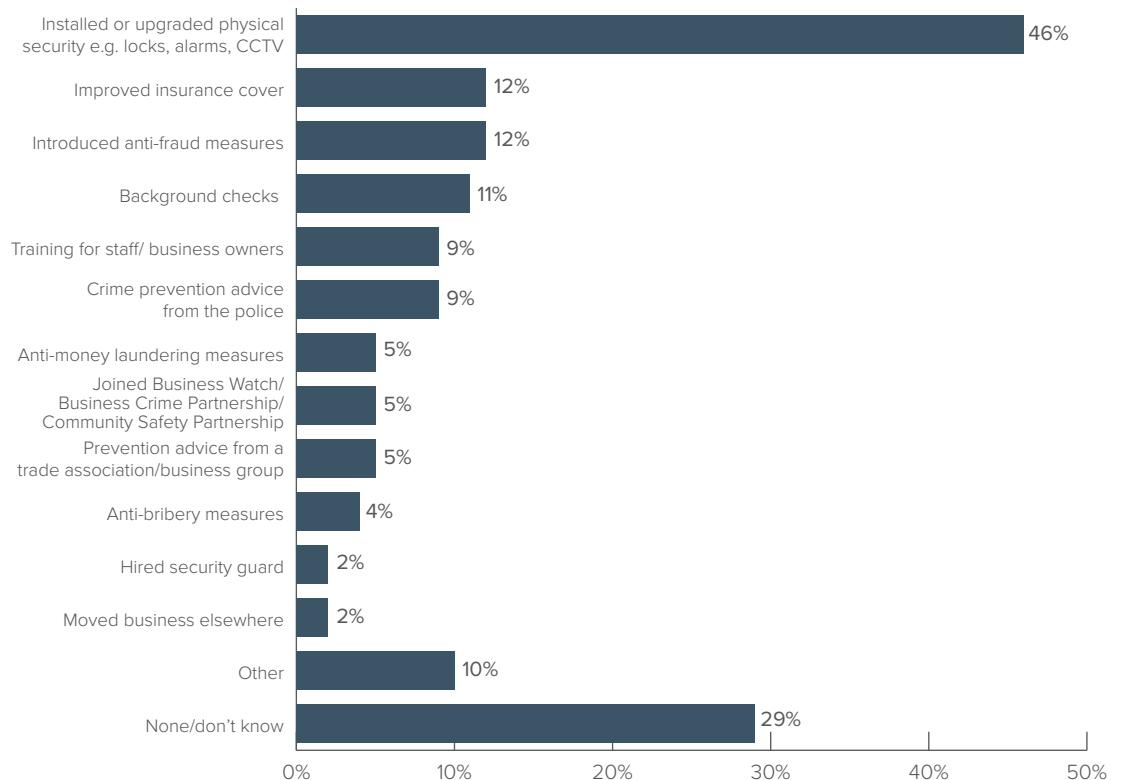| Previous 2 years			
Per affected business	**Aggregate**	**Per crime[23]**	**Per year aggregate**
£14,360	£25.8 billion[24]	£3,340[25]	£12.9 billion

Defensive measures against traditional crime

Nearly three-quarters (71%) of smaller businesses have taken at least one defensive measure against traditional business crime.

Figure 8 reveals that the most frequent security measures taken by smaller firms are physical in nature, e.g. locks and alarms (46%). Only one in ten (9%) say they have sought advice from the police about crime prevention. And only one in twenty (5%) have joined a Business Watch, Business Crime Partnership or Community Safety Partnership. Such schemes – along with other forms of collective action such as Business Improvement Districts – can play a useful role in reducing crime. However, they are not a silver bullet and the effectiveness of such measures can depend on a variety of local factors. Nevertheless, in the right circumstances, they can make a difference to the levels and nature of the crime suffered by businesses in a local area.[26]

Figure 8: Types of 'defensive' measures against traditional crime taken by smaller firms
Source: FSB business crime survey 2019

Installed or upgraded physical security e.g. locks, alarms, CCTV	46%
Improved insurance cover	12%
Introduced anti-fraud measures	12%
Background checks	11%
Training for staff/ business owners	9%
Crime prevention advice from the police	9%
Anti-money laundering measures	5%
Joined Business Watch/ Business Crime Partnership/ Community Safety Partnership	5%
Prevention advice from a trade association/business group	5%
Anti-bribery measures	4%
Hired security guard	2%
Moved business elsewhere	2%
Other	10%
None/don't know	29%

23 3.9 million 'traditional' crimes against smaller firms each year
24 At least 1.8 million businesses affected by traditional crime in last two years, £14,360 per affected business
25 Average affected business cost per two year period £14,360, average number of crimes per two-year-period 4.3
26 Stafford, A. Business Crime Reduction Schemes: An examination of operation, management and best practice. 2019.

Business/police partnership schemes focused on reducing crime

Multi-agency approaches to dealing with crime have become more prevalent in recent decades.[27] A number of different models exist to tackle crime against business. Most notable in England and Wales are Business Crime Reduction Partnerships (BCRPs)[28] and Business Watch. These are often part of Business Improvement District schemes. Partnerships between public agencies and relevant private organisations can play an important role in reducing crime in defined geographical areas against specific categories of victims, such as businesses.[29] However, their record is mixed and their success is often dependent on a number of contextual factors.[30] Among business focused schemes, success is often associated with:

- Close collaboration – often facilitated by use of technology such as social media platforms to enable swift and widespread communication

- Close working with the local police

- Provision of effective crime prevention support – dependent on police and/or Police and Crime Commissioner resources

- Open access to crime and policing data – building trust and effectiveness

- Frequent communication, strong personal relationships and stability in participants[31]

However, a number of factors deter smaller business participation in police partnership schemes:[32]

- High membership fees

- High business vacancy rates and/or transient business population

- Barriers (e.g. technological incompatibility and legal risks) to information sharing among participants

The quality of existing BCRPs is variable. However, perhaps the most important ingredient – local police involvement, most notably in information sharing – is not always available.[33] Therefore, to help ensure quality and encourage more extensive involvement by local constabularies, a new standard for BCRPs was introduced in 2018, overseen by the National Business Crime Centre (NBCC).[34] The extent to which this helps will be observed over time.

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27 Crime and Disorder Act 1998. Geoff Berry, Peter Briggs, Rosie Erol and Lauren van Staden. The effectiveness of partnership working in a crime and disorder context: a rapid evidence assessment. 2011.
28 National Association of Business Crime Partnerships. Home Page. 2019. Accessible at: https://nbcc.police.uk/article/?id=df7061c112e7b8dac7a39573c9903131 W
29 Jim, J., Mitchell, F.N. and Kent, D. Community oriented policing in a retail shopping centre . Policing. Vol 29. No 1. 2006.
30 Geoff Berry, G., Briggs, P., Erol, R and van Staden, L. The effectiveness of partnership working in a crime and disorder context: A rapid evidence assessment. 2011.
31 Stafford, A. Business Crime Reduction Schemes: An examination of operation, management and best practice. 2019.
32 Stafford, A. Business Crime Reduction Schemes: An examination of operation, management and best practice. 2019.
33 Security by Design. New national accreditation for Business Crime Reduction Partnerships will give local Forces greater 'confidence' when supporting businesses. 2018. Accessible at: https://www.securedbydesign.com/about-us/news/new-national-accreditation-for-business-crime-reduction-partnerships-will-give-local-forces-greater-confidence-when-supporting-businesses
34 NBCC. BCRP National Standards. 2018. Accessible at: https://nbcc.police.uk/article/?id=b55aea7cbc1ba43d6b92761b9cfb4370

CYBERCRIME

The volume and cost of cybercrime against smaller firms

Cybercrime has emerged as a major threat over the past 20 years because of the exponential growth in the use of digital networked technology. Very few smaller businesses are able to succeed without access to at least the most basic digital tools, such as email and the internet. However, the vast majority are utilising technology in more sophisticated ways.[35]

The widespread use of digital networked technologies has increased the vulnerability of many small firms to criminals who – with ever-growing sophistication – are exploiting the weaknesses in common technologies and the lack of knowledge/experience of those operating them.

Around one in five (20%) smaller firms across England and Wales say they were victims of cybercrime at least once in the previous two years.

Of those small firms who say they have experienced cybercrime over the previous two years, the majority say they have suffered one to two incidents. However, as with traditional crime, the extreme high frequency of cybercrime suffered by a minority of businesses raises the mean number of incidents per business to 7.3 (Figure 9).

Based on figures previously set out in Figure 1, this represents around 3.9 million cybercrimes against smaller firms each year.[36]

Figure 9: Number of cybercrimes experienced by smaller businesses in England & Wales in previous 2 years
Source: FSB business crime survey 2019

| Number of incidents	Percentage	MEAN	MEDIAN
1-2	56		
3-4	19		
5-6	9		
7-8	1	7.3	1-2
9-10	3		
More than 10	13		

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35 FSB. Data ready: mitigating the impact of data protection regulation on small businesses. 2018.
36 1.06 million businesses affected by cybercrime in last two years, mean 7.3 crimes per two years (7.7 million)

Figure 10a shows that, of those businesses in England & Wales that experienced cybercrime in the last two years, just over two in five (42%) suffered resultant losses of at least £1,000. This compares to 63% that experienced the same levels of loss from traditional (non-cyber) crime. And of those experiencing cybercrime, unlike traditional crime, a significant minority (20%) suggested they suffered no losses.

Figure 10a: Per business cost of cybercrimes experienced by smaller businesses in England & Wales in previous two years
Source: FSB business crime survey 2019

- No cost
- Less than £1,000
- £1,000 – £10,000
- £10,000 – £25,000
- £25,000 – £100,000
- More than £100,000
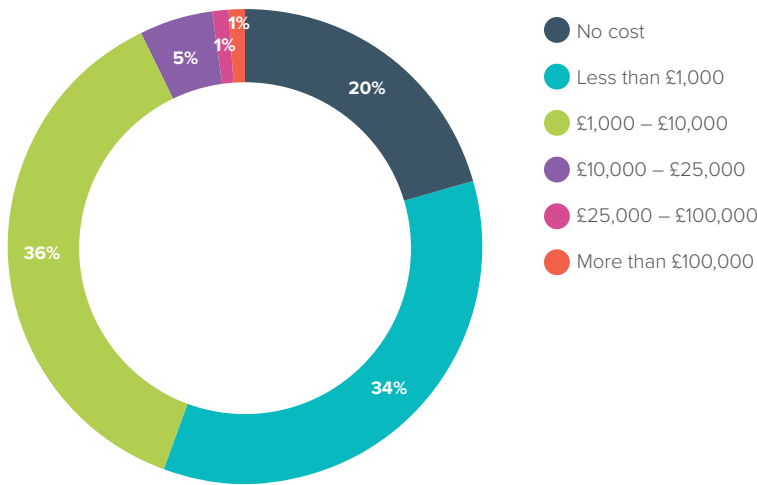
On average, each business affected by cybercrime suffered a loss of £7,093 during this period, or £972 per crime. This adds up to an aggregate cost of business cybercrime of almost £3.75 billion per year (Figure 10b).

Figure 10b: Aggregate cost of small business cybercrime in England & Wales
Source: FSB business crime survey 2019

Previous 2 years			
Per affected business	**Aggregate**	**Per crime**[37]	**Per year aggregate**
£7,093	£7.5 billion[38]	£972[39]	£3.75 billion

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37 3.9 million cybercrimes against smaller firms each year
38 1.06 million businesses affected by cybercrime in last two years, £7,093 per business
39 Average business cost per two year period £7,093, average number of crimes per two-year-period 7.

Figure 11a shows that, of those small firms that experienced cybercrime in the previous two years, the most frequently reported types were phishing (51%), malware (36%) and processing fraudulent payments online (29%).

Figure 11a: Types of cybercrime experienced by smaller businesses in England & Wales in previous two years[40]
Source: FSB business crime survey 2019
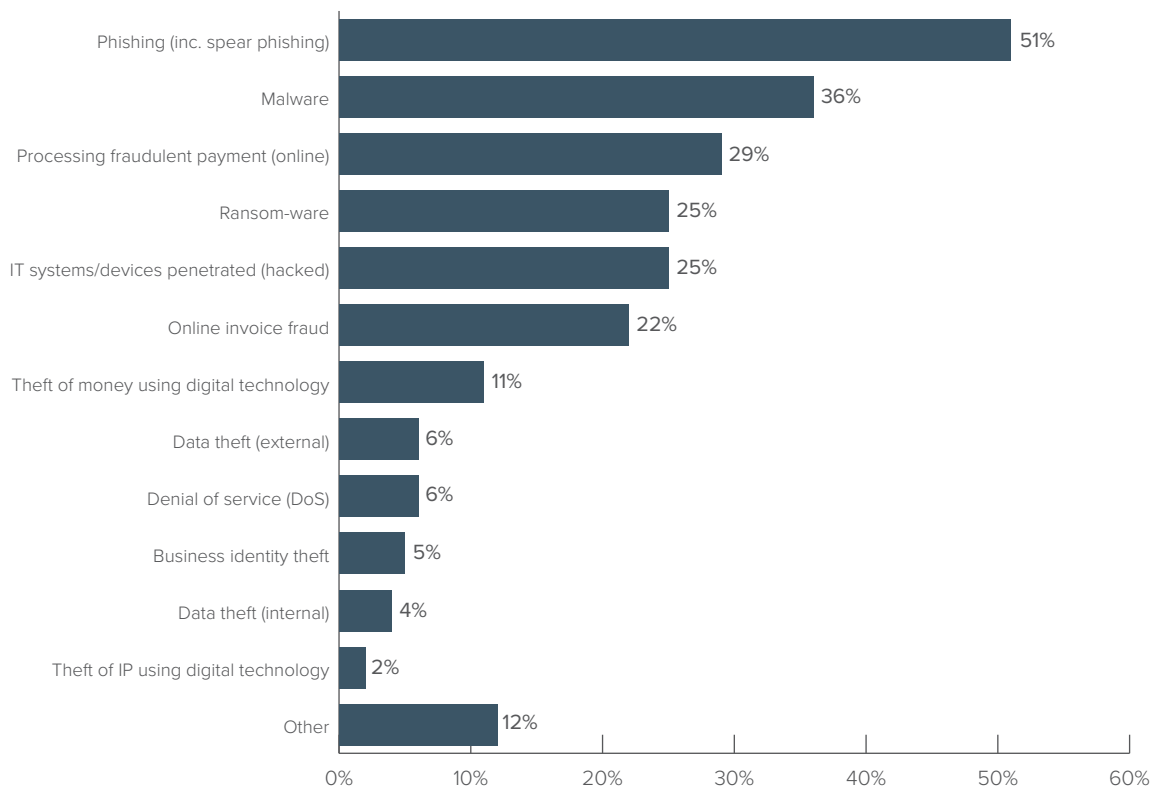
The difficulty of managing cybercrime for smaller businesses

Some smaller businesses consider that Government and crime agencies do not do enough to raise awareness of cybercrime and that communication about cybercrime presents a challenge because of the use of technical jargon.

"You hear radio campaigns about child credits but the cybercrime one doesn't tell me what I need to do to prevent it. One of the problems with cybercrime is that cybercrime people talk in a completely different language. There is no point in talking about patches and malware, bot net....

"...there is often a translation problem between small businesses and technology specialists. All sectors have their own lexicons and people outside IT don't understand the IT lexicon. For me that's one of the biggest problems."

Small business owner, West Midlands focus group

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40 1.06 million businesses affected by cybercrime over the course of two years

There is a general sense that small businesses don't recognise how important cyber security is.

> *"...small firms often don't realise how important it is to them. IT networks started properly 25 years ago. People still don't see IT and cyber as critical to their business. They think it's important. Well important was 10 years ago. We can't live without it which means we need good security."*
>
> Small business owner, Wales focus group

However, irrespective of the recognition of importance there are challenges in investing in protection against cybercrime.

> *"Most SMEs are significantly under-investing in cyber security. A client who installed industrial kitchens recently received a fraudulent invoice from a long-standing supplier, while he was on holiday. It cost their business £25,000. Every single company we have done the cyber security for in the last 12 months say they have received fake invoices."*
>
> Cyber security professional, Wales focus group

> *"Microbusinesses... a lot won't spend £800 a year running their website. So they won't get it updated. They don't perceive it as a valuable item."*
>
> Small business owner, Wales focus group

> *"Every small business is taking a chance, making a cost benefit decision."*
>
> Small business owner, Wales focus group

Even where preventative action is taken, small business owners can still be the victim of business crimes.

> *"We did have anti-virus software. We had an IT company that supports us. That first incident we had in November, I don't think we should have just gone 'phew' we escaped. We should have looked at the whole system we had in place and changed all the cards and everything at that stage. After the second incident, the IT consultant cleaned the computer, and it needed cleaning. There were about eight items on there that shouldn't have been."*
>
> FSB small business owner, Wales

Defensive measures against cyber threats

Figure 12a shows that nine in ten (90%) smaller businesses in England and Wales have invested in at least one cyber-resilience measure to protect their business.

Most small firms have installed security software (65%) and keep that software updated (60%). And most (59%) say they regularly back up data and IT systems. Elsewhere, myriad cyber security measures have been implemented – albeit each by a minority of businesses, which may reflect their circumstances and risks, ways of working and relative expertise.

Only a small minority (4%) of smaller businesses say they have accessed the National Cyber Security Centre's small business offering – representing just 208,000 businesses across England and Wales. Similarly, only two per cent have accessed Cyber Essentials or ISO27001 – representing just 104,000 businesses. So there is much further to go to increase awareness and use of sources of advice provided by bodies such as the NCSC.

Figure 12b shows that larger businesses are more likely to have implemented a wider range of security measures (average 7.6 for 20+ employees, compared to 5.1 for microbusinesses). Further, larger firms are more likely to have implemented many of the individual, and often important, measures available to them. For example, 79 per cent of larger firms (20+ employees) have installed security software, compared to 65 per cent for microbusinesses. And 79 per cent also say they regularly back up their data and IT, compared to 54 per cent for microbusinesses. Larger firms (20%) are also more than twice as likely to have an IT resilience plan in place as microbusinesses (8%).

Figure 12c shows a sectoral variation in the average number of cybercrime defensive measures taken by smaller firms. Businesses operating in the Information and Communication sector (7.7) and in the Professional, Scientific & Technical sector (6.6) have implemented a greater number of these defensive measures on average (compared with 5.1 across all sectors). Businesses in these sectors are also more likely to have implemented many of the individual measures available to them, reflecting their greater reliance on IT and information.

For example, 86 per cent of those operating in the Information and Communications sector and 73 per cent of those operating in the Professional, Scientific and Technical sector say they regularly back up their data and IT (compared with 59% across all sectors).

Figure 12a: Types of defensive measures against cybercrime taken by smaller firms
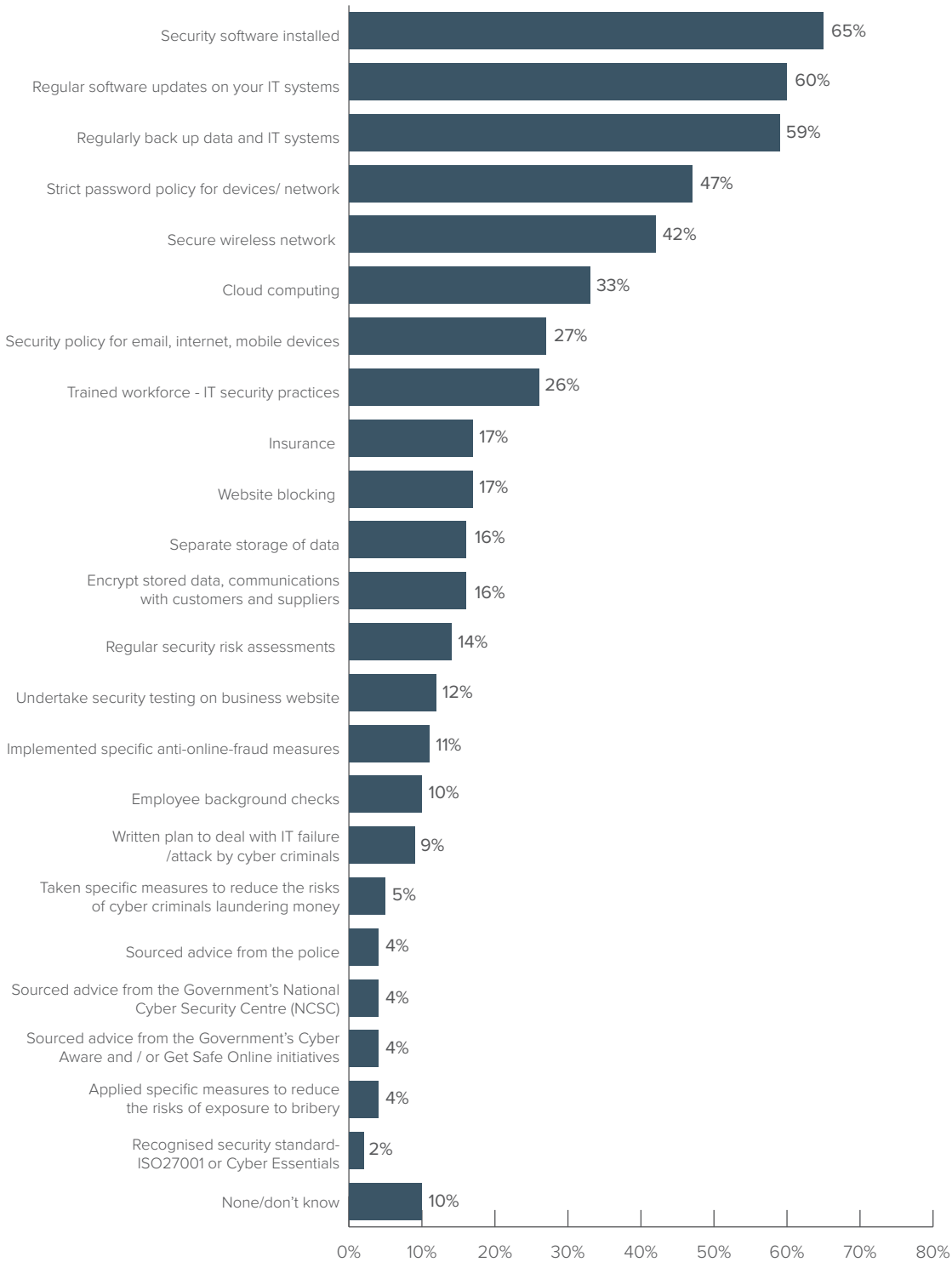Source: FSB business crime survey 2019

Measure	Percentage
Security software installed	65%
Regular software updates on your IT systems	60%
Regularly back up data and IT systems	59%
Strict password policy for devices/ network	47%
Secure wireless network	42%
Cloud computing	33%
Security policy for email, internet, mobile devices	27%
Trained workforce - IT security practices	26%
Insurance	17%
Website blocking	17%
Separate storage of data	16%
Encrypt stored data, communications with customers and suppliers	16%
Regular security risk assessments	14%
Undertake security testing on business website	12%
Implemented specific anti-online-fraud measures	11%
Employee background checks	10%
Written plan to deal with IT failure /attack by cyber criminals	9%
Taken specific measures to reduce the risks of cyber criminals laundering money	5%
Sourced advice from the police	4%
Sourced advice from the Government's National Cyber Security Centre (NCSC)	4%
Sourced advice from the Government's Cyber Aware and / or Get Safe Online initiatives	4%
Applied specific measures to reduce the risks of exposure to bribery	4%
Recognised security standard- ISO27001 or Cyber Essentials	2%
None/don't know	10%

Figure 12b: Types of defensive measures against cybercrime taken by smaller firms – by size
Source: FSB business crime survey 2019

Security Measure	ALL	Sole trader	Up to 10	11 to 20	21+
Average Number Implemented	**5.1**	**4.2**	**5.1**	**6.5**	**7.6**
Security software installed	**65**	63	65	69	79
Regular software updates on your IT systems	**60**	59	59	67	73
Regularly back-up data and IT systems	**59**	53	59	66	79
Strict password policy for devices/ network	**47**	42	47	51	61
Cloud computing	**33**	22	34	44	46
Security policy for email, internet, mobile devices	**27**	22	25	39	50
Trained workforce - IT security practices	**26**	10	28	44	50
Insurance	**17**	11	17	26	33
Website blocking	**17**	15	14	27	35
Regular security risk assessments	**14**	9	14	16	27
Implemented specific anti-online-fraud measures	**11**	8	9	17	26
Employee background checks	**10**	3	9	19	30
Written plan to deal with IT failure / attack by cyber criminals	**9**	7	8	18	20
Taken specific measures to reduce the risks of cyber criminals laundering money	**5**	3	4	9	17

Figure 12c: Average number of cybercrime defensive measures taken by smaller firms in previous two years – by sector
**Source**: FSB business crime survey 2019

Sector	Average number of cyber security measures installed
All sectors	5.1
Information & Communication	7.7
Professional, Scientific & Technical	6.6
Manufacturing	5.3
Wholesale & Retail	4.2
Construction	4.0
Accommodation & Food	3.9

MOST DISRUPTIVE CRIMES EXPERIENCED BY SMALLER ENTERPRISES

Figure 13 shows which type of individual crime event had the biggest impact on small firms. For those that had experienced crime in the previous two years, theft, burglary, cybercrime and fraud incidents were most frequently described as having created the most disruption.

Figure 13: Most disruptive single crime experienced by small firms in previous two years
**Source**: FSB business crime survey 2019
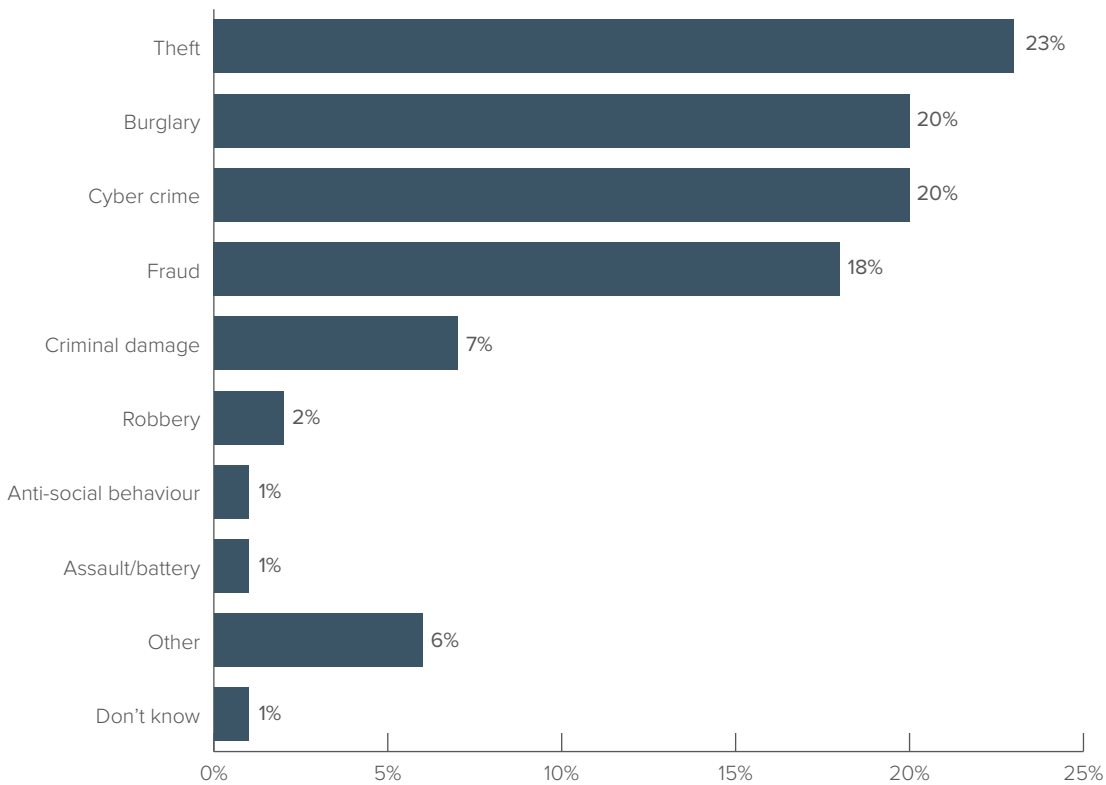
The mix of traditional crimes, cybercrime and fraud (which is frequently cyber-enabled) highlighted in Figure 13 typifies the complex landscape of modern business crime. It also highlights the need for Government to provide law enforcement with the appropriate resources and policy framework to enable the right mix of operational capabilities.

Wider indirect effects of business crime

The impact of crime on small businesses is not just direct. There are wider, indirect (second-order) costs which add to the negative impact of a crime for both an individual business, the local community and wider economy. Crime has personal, intangible and delayed impacts on a business which are less easily quantified (e.g. stolen or defrauded money). Figure 14 shows the types of indirect impacts that small firms have experienced in relation to their most disruptive individual crime event in the previous two years.

Figure 14: Indirect (second-order) consequences of business crime
Source: FSB business crime survey 2019
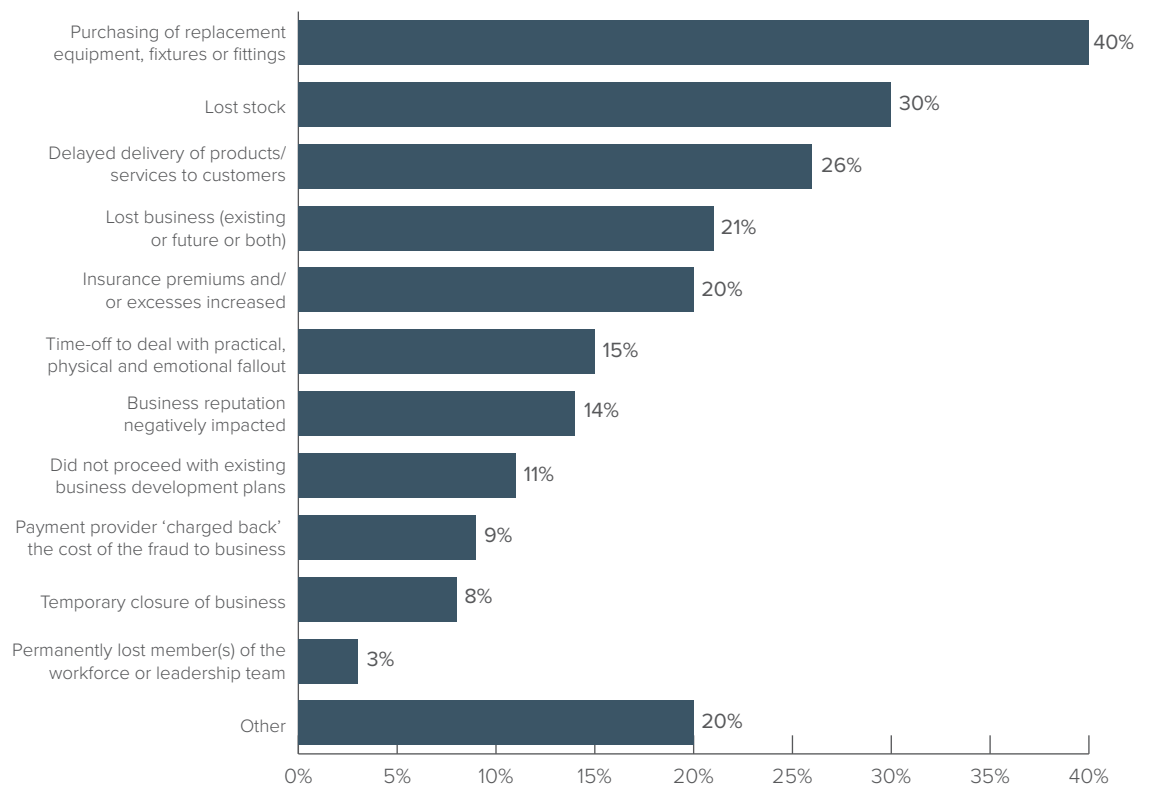
Many businesses identified a theft, burglary or cybercrime as having the biggest negative impact on their business in the previous two years. Figure 14 shows that the impacts of these types of crime are likely to go beyond the direct initial costs. For example, following a theft or burglary, the requirement to replace equipment (highlighted by 40% of those business crime victims) does not only involve a direct financial outlay, it also diverts time and effort away from the core business. In addition, a business faces lost opportunity for sales of goods or services during the time it takes to replace equipment. Similarly, a cyber-attack may lead to a lengthy shutdown of IT equipment that may be vital for delivering business services, halting commercial operations until corrective action is taken. If the IT equipment is severely damaged – e.g. by a crypto-ransomware attack – then the business is likely to have to replace their equipment (networked devices).

The negative impact on staff resource (highlighted by 15% of business crime victims in Figure 14) is a significant indirect consequence of business crime, with many business owners and staff saying they required time off, or away from the core business, to recover from the psychological and physical fallout, or to manage the ensuing legal, insurance, and recovery processes.

Figure 14 also shows that nine per cent of business crime victims say they were subsequently 'charged-back' for processing fraudulent payments. However, notably, this proportion rises to 39 per cent for businesses in the Wholesale, Retail and Repair sectors, where the risk of processing of fraudulent transactions is at its highest.

Following a crime, the most serious consequence for a business is not being able to trade at all. Eight per cent of business crime victims in Figure 14 say they temporarily ceased commercial activity as a result of a crime.

The 'social' costs of crime

In addition to its indirect impact on individual businesses, business crime can lead to broader social costs, particularly in areas where levels are high, persistent or serious. One key driver of prosperity that crime inhibits is the effective operation of markets by distorting (or in some cases preventing entirely) the efficient interplay of demand, supply and competition. For example, crime reduces start-up and entry into markets.[41] It also leads to the death of many businesses (perhaps as many 99,000 in England and Wales in 2017[42]).[43] Consequently, crime results in less competition, less diversity and complexity, and more concentration in industries.[44] [45] In a simplified sense:[46]

> "Criminal activity acts like a tax on the entire economy: it discourages domestic and foreign direct investments, it reduces…competitiveness, and reallocates resources creating uncertainty and inefficiency."

These costs can compound over time and play a central role in the secular decline of local communities and economies. Research in the US, which aimed to estimate the total economy-wide annual cost of crime, found it to be somewhere in the region of $1.7 trillion in the late-90s.[47] This research suggested that $10 of 'tangible economic losses' as a result of crime generates a further $8 of 'intangible costs' for society. A similar relationship in England and Wales would translate to a combined cost of more than £30 billion a year against smaller businesses.

A focus by law enforcement on the types of crime that small firms consider the most impactful (Figure 13 above) would not only save individual businesses considerable amounts of financial, material, psychological and intangible detriment, it would also lead to considerable gains for the local community and wider economy. These would result from the avoidance of crime related costs and wasted resources (including time that could otherwise have been utilised productively), and by averting the chilling effect on commercial activity (i.e. start-up, investment and growth) and the efficiency of markets.

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41 Mahofa, G. Sundaram, A and Edwards, L. Impact of Crime on Firm Entry: Evidence from South Africa. 2016.

42 Number of business deaths in the UK in 2017 was 357,000 (- 25,000 business deaths in Scotland and NI) gives a figure of around 332,000 business deaths in E&W in 2017. Assuming the US Chamber of Commerce figure of 30 per cent of firm deaths are at least in-part due to crime (see footnote 53), a quick calculation suggests that - in 2017 - there were around 99,600 business deaths in England and Wales due to crime. Source: ONS. Business demography 2017. 2018. Accessible at: https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemography/2017#business-births-and-deaths-in-wider-economic-context

43 Business failure: 'According to the U.S. Chamber of Commerce, as many as 30% of [businesses] fail as a result of crime…'. Source: U.S. Chamber of Commerce, 1995 in Bressler, M S. The Impact of Crime on Business: A Model for Prevention, Detection & Remedy Journal of Management and Marketing Research. No date given. Accessible at: https://www.aabri.com/manuscripts/09202.pdf

44 Rios, V. The impact of crime and violence on economic sector diversity. 2016.

45 Detotto and Otranto 2010 and Detotto and Pulina 2013 cited in WEF. The Global Competitiveness Report 2015–2016: Drivers of Long-run Prosperity. 2016.

46 Detotto, C and Otranto, E. Does Crime Affect Economic Growth?. International Review of Social Sciences. Vol 63. No 3. 2010.

47 Anderson found that the approximate value of tangible economic losses in 1997 was around $603 billion, which created a further $1,102 billion in economic costs due to lost productivity, diminished quality of life, etc. Source: Anderson, D A. The Aggregate Burden of Crime. The Journal of Law & Economics. Vol. 42. No 2. 1999.

The social costs of organised crime

A significant proportion of business crime falls under the category of organised crime.[48] As noted by the National Crime Agency (NCA): [49]

> *"Serious and organised crime (SOC) affects more UK citizens, more often, than any other national security threat…The threat from SOC is increasing in both volume and complexity and will continue to do so…Alongside established and traditional routes, criminals are taking up areas of technology-enabled crime."*

The NCA have estimated the cost of organised crime in the the UK to be at least £37 billion annually. Further, this cost is growing.[50] Organised criminals are utilising a number of 'enablers' to maximise their gains, including technology, porous borders and corruption.[51] Organised crime is not only a significant barrier to the success of existing businesses (small and large), it also undermines the fundamental institutional foundations of a successful market-based economy, e.g. through the erosion of the security of property rights protected through the rule of law. One estimate suggests that a 10 per cent increase in criminal organisations can lead to the elimination of an entire economic sector. Similar effects were estimated for a five per cent increase in gang-related violence.[52] In the long-run, organised criminality has a notable detrimental impact on economic growth rates.[53, 54, 55] In other words the social impact is cumulative and often hidden from published crime cost estimates.

Where organised crime controls commercial activity in a locality, it both drives out and prevents the entry of legitimate businesses, damaging the growth prospects of that area.[56] As a result of its dispersed and often unreported impact – both short-term on individuals and commercial enterprises and in the long-run on the social capital and other factors that underpin local economic success – the quantum of the impact of organised crime at the local level is largely underestimated:[57]

> *"Violence linked to organised crime often takes place in residential streets, undermining communities' feeling of safety and economic and social well-being. It creates a pervasive atmosphere of 'fear and menace' through verbal and physical threats, use of intimidation, blackmail and extortion along with a high degree of social control where local disputes are settled 'informally'. In communities where Organised Crime Gangs are feared, reporting rates are typically low."*

48 The UN definition, in the UN Convention against Transnational Organised Crime is: '…a group of three or more persons existing over a period of time acting in concert with the aim of committing crimes for financial or material benefit'. Source; Europol. Defining Serious and Organised Crime. No date given. Accessible at: https://www.europol.europa.eu/socta/2017/defining-serious-and-organised-crime.html

49 NCA. National Strategic Assessment of Serious and organised Crime. 2018.

50 The NCA also notes that the £37 billion figure is likely to be an underestimate because of poor recording and under-reporting of crimes like fraud. Source: NCA. National Strategic Assessment of Serious and organised Crime. 2019.

51 NCA. National Strategic Assessment of Serious and organised Crime. 2019.

52 Rios, V. The impact of crime and violence on economic sector diversity. 2016.

53 Pinotti, 2014 shows how organised crime stunts growth. It leads to '…misallocation of capital and labor…[it prevents]…new entrepreneurs from entering the market…'. Source: WEF. The Global Competitiveness Report 2015–2016: Drivers of Long-run Prosperity. 2016.

54 Keith Blackburn, K., Neanidis, K C and Rana, M P. A theory of organized crime, corruption and economic growth. Economic Theory Bulletin. Volume 5. Issue 2. 2017.

55 Van Dijk, J. Mafia markers: assessing organized crime and its impact upon societies. Trends in Organised Crime. Vol 10. 2007.

56 Scottish Government. Community Experiences of Serious Organised Crime in Scotland: Research Findings 67/2018. 2018. https://www.gov.scot/publications/community-experiences-serious-organised-crime-scotland-research-findings/

57 The Police Foundation. The impact of organised crime on local communities. 2016

Technology has enabled a substantial growth in the number of frauds committed at relatively low-risk to the criminals. This is because law enforcement has proven itself to be deficient in tackling it.[58] One estimate suggests that less than one in two-hundred victims of fraud will find that the perpetrator is arrested and successfully convicted.[59] Further, it is a crime-type where the financial cost falls heavily on business rather than individuals:[60]

> "*The 2017 Annual Fraud Indicator (AFI) estimates that fraud costs the UK economy £190 billion per year with the private sector being the worst affected with an estimated loss of £140 billion. The public sector could be losing £40.4 billion per year.*"

Smaller firms are particularly vulnerable to this rapidly growing and relatively risk-free crime:

> "*Large businesses are more likely to have the skills, experience and resources to protect themselves against online fraud because the risk of becoming a victim depends on how sophisticated a business's internal process and financial control environments are. In contrast, small and medium-sized enterprises (SMEs) often have less capacity and capability to defend themselves against online fraud.*"
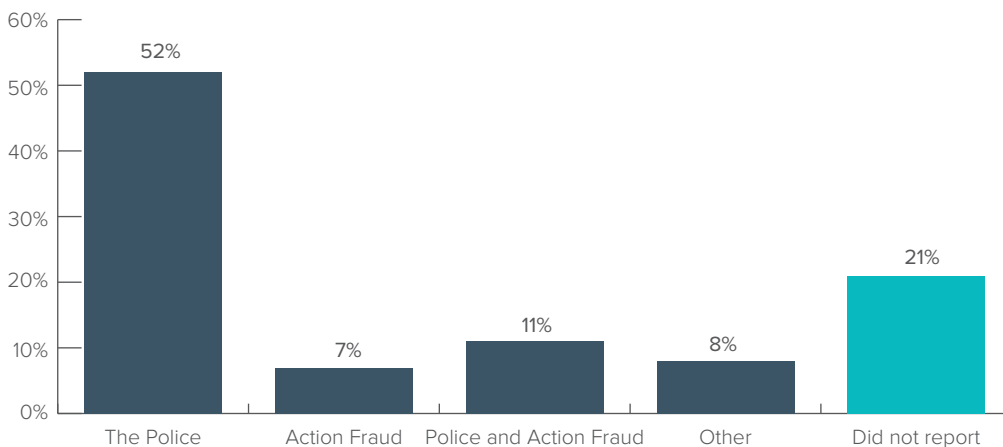
The Home Affairs Select Committee observed that the current law enforcement response to the explosion in fraud over the last decade is in need of 'a fundamental overhaul'.[61]

Reporting the most disruptive crimes against small businesses

Figure 15 shows that, of the most disruptive crimes experienced by small firms in the previous two years (Figure 13), over a fifth (21%) went unreported to the authorities. This suggests these types of crime may be under-reported by as many as half a million over this period, or around a quarter of a million, annually.[62] This also suggests that lower impact crimes (i.e. those not identified in Figure 13) are even less likely to be reported.[63]

Figure 15: Small business reporting of their most disruptive crimes
Source: FSB business crime survey 2019

58 HMIFRS. Fraud: Time to choose – An inspection of the police response to fraud. 2019.
59 Home Affairs Select Committee. Policing for the future. 2018.
60 NAO. Online Fraud. 2017
61 Home Affairs Select Committee. Policing for the future. 2018.
62 This figure was derived by taking the number of small business victims of crime across 2017 and 2028 and identifying 21 per cent of that total. 2,547,000*21% = 535,000.
63 This would be consistent with FSB's previous findings which (albeit from a UK-wide base rather than an England and Wales sample base) a survey of FSB members found that around one in five businesses do not report any of the crimes they are a victim of and a further third only report the most serious.

There are many reasons why smaller businesses fail to report crime to the relevant authority (Figure 16). Many feel a significant sense of fatalism about being a victim, and hold low expectations about the ability and willingness of police to investigate and pursue perpetrators.

Figure 16: Small business reasons for not reporting crime
Source: FSB business crime survey 2019
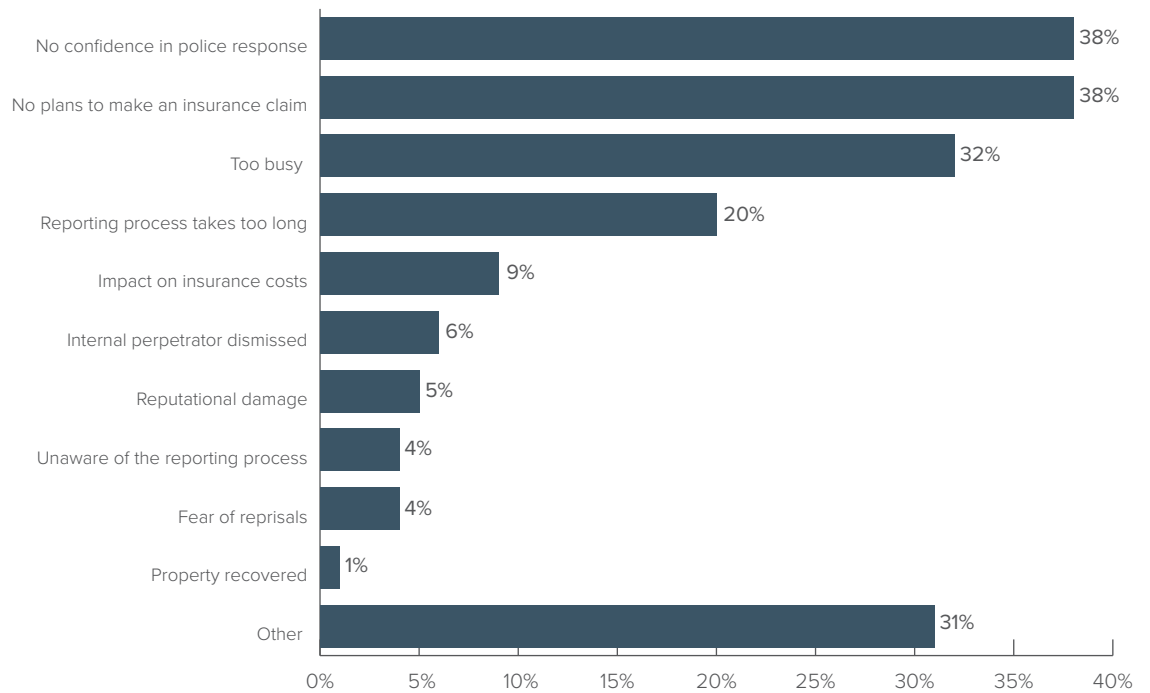
A number of FSB focus groups across England & Wales explored the issues set out in Figure 16 in more detail:

> *"We report everything to the police… nothing gets done."*
>
> Business Park owner, FSB focus group

> *"The big things you report, but you'll get a crime number and that's it. One thing that doesn't get picked up is all the crime you don't claim for. There's so much crime you'd never get insured. You daren't tell the insurance."*
>
> Small business owner, FSB focus group

Particular concerns were expressed about the user-friendliness of Action Fraud.

> *"Even to report it, it was really quite arduous. It took two phone calls. I couldn't even get a crime number out of them the first time. You need a number to be able to refer it back."*
>
> Small business owner, FSB focus group

> *"Action Fraud say they can't do anything about it so I no longer bother to report. I got letters back – three responses – but all saying they're overwhelmed. They should change their name to In-Action Fraud and just admit they're a statistics agency."*
>
> Small business owner, FSB focus group

> *"I'm seeing a client at least once a week who has suffered from a cybercrime attack. I ask them to ping it over to Action Fraud, but they say 'no, I don't want to be a statistic and the police won't be able to do anything anyway'."*
>
> Cyber security consultant, West Midlands, FSB focus group

The busy and fast-moving nature of running a small business also plays a role in the under-reporting of crime, as does the reporting process itself. For example, many have had a poor experience of the 101 number service.[64] Further, in the context of a low likelihood that the police will follow-up an individual crime, the level of detail required to report a crime (opportunity cost) is often seen as disproportionate to the potential benefit. Therefore, a simple system – such as a single crime reporting portal – would be a welcome step. Such a system should not be onerous, but should enable a business to highlight swiftly that they had been a victim, relay a minimum set of details and obtain a crime number, while simultaneously providing useful data for the authorities to target criminals.[65] Simplicity, awareness and knowledge that reporting is useful (even where it won't lead to something specific being done in the individual case) will encourage more businesses to report greater numbers of the business crimes that they suffer.

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64 Johnson, J and Lewis, T. Thousands abandon 101 police calls over long waits. 2018. Accessible at: https://www.bbc.co.uk/news/uk-wales-45050915
65 Steps in this direction appear to be being made, although the details of the Home Office's proposals for a Single Online Home (SOH) are yet to be made explicit. There is a risk, if it is poorly designed and operationalised, that it repeats some of the mistakes of Action Fraud. These must be avoided. Source: Home Office. Home Office to scrap 101 non-emergency number charges. 2019. Accessible at: https://www.gov.uk/government/news/home-office-to-scrap-101-non-emergency-number-charges

POLICING RESPONSE TO BUSINESS CRIME

Figure 17 shows sets out the nature of the police response to the types of business crimes set out in Figure 13 (above). In nearly half of cases (48%), authorities failed to attend the scene of the crime or visit the victim. And in almost one in ten cases (9%), the police, although they did attend the scene, did so more than three days after the incident.

In just one in five (22%) cases, police attended the scene of crime within 3 hours. And in just 7% of cases, the police response was immediate.

**Figure 17:** initial Police response to the most impactful crime, 2017 and 18
Source: FSB business crime survey 2019

Nature of the immediate response	Percentage	
Did not attend the scene/ victim, nor provide crime number	11	
Did not attend the scene/ victim, provided a crime number	22	
Provided crime number, acknowledged the crime in writing but did not attend the crime scene/ victim	10	48
Provided a crime number, crime prevention literature but did not attend the victim/ scene	2	
Provided a crime number, sent a written acknowledgement, crime prevention literature but did not attend the victim/ scene	3	
Police attended immediately	7	
Police came within an hour	8	22
Police came within 3 hours	8	
Police came within 24 hours	8	
Police came within 3 days	4	
Police came within 1 – 7 days	4	
Police came after more than a week	5	

As Figure 18 highlights, just over one-in-ten of the reported small business crimes highlighted in Figure 13 (above) ended in the police arresting the perpetrators. Close to half (48%) were not investigated at all.

Figure 18: Outcome of police response to reported business crime
Source: FSB business crime survey 2019
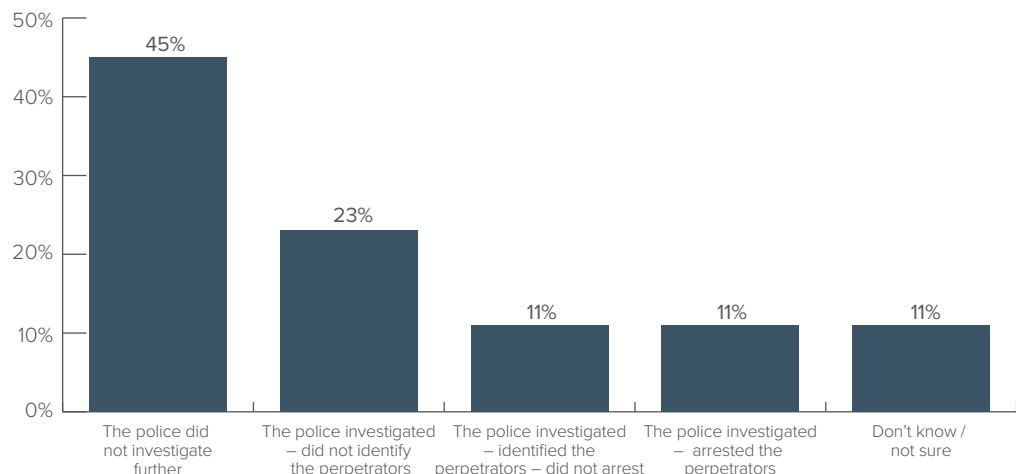
A number of FSB focus groups across England & Wales explored the issues set out in Figure 18 in more detail:

"Whatever happens there is no follow-up from the police."

Small business owner, FSB focus group

"...without doubt criminals are being emboldened by the lack of investigation. I've got a video of them – there are quite clear pictures of them. There they are outside of my building. They (the police) were saying things like 'oh, that looks like the one who did the tobacco robbery'. They almost knew who they were but nobody was caught. They didn't feel it was important enough to catch them. And we know they can catch people..."

Antiques shop owner, FSB focus group

"The police didn't want to know, even though the perpetrator was local and known to them. We police by consent in this country, but they're taking away that by saying 'we're not doing that for you'. They really need to look at public perception because we keep being told 'we can't do this, we don't do that, we can't help you'..."

Garage owner, FSB focus group

"...if you have Chief Police Officers coming out publicly saying a) we can't investigate and b) we can't do this, then you're creating an enormous problem in the perception of society as to how it functions. It's a dangerous thing, and it's reflected in the relatively small number who report crime because their faith is lost. What's the point?"

Small business owner, FSB focus group

"Three weeks ago, I was assaulted on my doorstep. I phoned 999 – the police asked if I would come down to the station. If they can't respond to something like that, they're not going to pick up on other crimes such anti-social behaviour and theft."

Former police officer-turned-entrepreneur, FSB focus group

"...as a business, even if you have evidence you won't get them there. We've got CCTV footage of things going on, like swapping number plates or breaking in to one of our neighbours. The neighbour submitted to the police and nothing was done."

Small business owner, FSB focus group

POLICE AND CRIME COMMISSIONERS AND LOCAL CONSTABULARIES

The extent to which PCCs and local constabularies prioritise crime against their local business community varies considerably. There *are* examples of good practice, but in other cases businesses are not a first order victim group and little is done to deal specifically with crime against smaller firms by the relevant PCC or the police.

FSB is structured in such a way that we operate across all regions and nations of the UK. As part of this structure, we have dedicated staff covering each region of England and Wales, supporting a network of FSB small business members and activists, and engaging with key local decision makers and politicians, including PCCs and local constabularies.

We carried out a high level audit of our regional networks to understand their relationships with 28 different PCCs and constabularies across England and Wales, and the degree to which they felt different aspects of business crime where being prioritised in those areas.[66]

PCCs

The role of Police and Crime Commissioners (PCCs) is to be the voice of the people and hold the police to account. They are responsible for the totality of policing in their respective geographic areas.[67] PCCs aim to cut crime and deliver an effective and efficient police service within their force area.

Figure 19 shows that PCCs need to do much more to demonstrate to their local business community that they are focussed on business crime. Just 39 per cent of those surveyed believe that their PCC hosts regular meetings and forums for small businesses to discuss crime issues, and only 29 per suggest there are regular high-level meetings with business leaders.

Only 29 per cent of those surveyed felt that business crime was highlighted sufficiently in their local Crime Plan. Just 18 per cent felt that their PCCs and constabularies collected and published sufficient data on criminal activity against businesses in their locality.

Only one of the 28 PCCs was reported to offer any obvious victim support to businesses that suffer criminality.

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66 FSB's regional teams undertook best endeavours to identify all that their local PCCs and constabularies are doing. Any information missed out is consequently, purely accidental.
67 Association of Police and Crime Commissioners website, available at https://www.apccs.police.uk/role-of-the-pcc/

Figure 19: Perceptions of PCC focus on small business crime
Source: FSB regional audit 2019

PCC measure	Percentage agreement or awareness
Regular meetings/forums for local businesses	39
Business crime sufficiently highlighted in Crime Plan	29
Adequate support/advice provided about making businesses safer	29
Regular high-level meetings between PCC and local business leaders	29
Single point of contact provided for business community	18
Sufficient collection and publication of business crime data	18
Specialist PPC team dealing with business crime	18
Adequate support for Business Crime Reduction Partnerships	18
Adequate support provided for local business crime reduction initiatives	18
Adequate victim support provided	4

Figure 20 shows which specific types of business crime PCCs are seen to prioritise, again from the perspective of those local business networks surveyed. Cybercrime (46%) is clearly seen as a priority for many. The prioritisation of cybercrime by PCCs is not a surprise, given that it is a National Policing Priority. However, as detailed earlier in this report, 'traditional' crime is twice as costly as cybercrime to small firms and, as such, prioritising the latter means the PCCs are failing to sufficiently address the most pressing concerns of their business community.

Anti-social behaviour (including criminal damage) and modern slavery are seen as PCC priorities for 32% of those surveyed. Worryingly, just a small minority believe burglary (11%), robbery (7%) and theft (4%) are business crime priorities for their PCC, despite the fact that the small business experience and impact of these crimes is high (see Figure 5a and 7b, previously).

Figure 20: Perceptions of PCC priority business crimes
Source: FSB regional audit 2019

Crime-type	Percentage
Cybercrime(s)	46
Anti-social behaviour (inc. criminal damage)	32
Modern slavery	32
Threatening behaviour, assault	18
Fraud	18
Processing of a fraudulent payment (Card-not-present fraud)	18
Burglary	11
Robbery	7
Theft	4

Figure 21 looks more broadly at perceptions about the more strategic areas of focus for PCCs, rather than individual crime types. Again, cyber is clearly seen as a focus, highlighted by more than half (54%) of survey respondents. Yet very few highlight areas associated with more traditional crimes as a priority – high streets (18%), retail theft (14%), financial/economic (14%). Again, this strategic direction appears to be counter to the relative experience and impact of crimes set out previously in Figures 5a and 7b.

Figure 21: Perceptions of PCC strategic priorities
Source: FSB regional audit 2019

Crime topic/theme	Percentage
Cybercrime and security	54
Anti-social behaviour	39
Rural	32
Night-time economy	21
Terrorism	21
High-streets	18
Retail theft	14
Financial/ economic	14

National Business Crime Centre (NBCC)

The NBCC emerged out of the Metropolitan Police Service's Business Crime Reduction Hub and was established because the response by police forces across England and Wales to crime committed against businesses was poor. The NBCC has a number of objectives all which aim to enhance the response to crime perpetrated against business. The key objectives are:[68]

———

'To improve partnership with the business community and raise national police standards, to accurately understand and reduce the impact of crime. Enable businesses to target resources more efficiently, through effective intelligence and information exchange, disrupting organised business criminality at a national level. Prioritising prevention, enabling businesses to protect themselves from cyber fraud and terrorism by being a conduit of best practice and a centre of excellence supporting all businesses throughout the UK.'

———

The NBCC has two target audiences:

- The 43 police constabularies across England and Wales
- The English and Welsh business community

It signposts to a number of relevant agencies and organisations and information sources for smaller businesses such as the National Cyber Security Centre (NCSC) and the Cross-sector Safety and Security Communications (CSSC). The NBCC provides a range of guidance and other information across a wide variety of areas relevant to crime against business, such as the Small Business Guide to CCTV, through to templates for Data Sharing Agreements (DSA) for Business Crime Reduction Partnerships (BCRP). It helps spread best police practice for dealing with crime perpetrated against business, not least between the 'business crime' SPoCs based-in local constabularies, and works to build and enhance partnerships between policing and key sectors such as the private security industry.[69]

Unfortunately, while there is laudable ambition behind the aims and objectives of the NBCC, it is only a small unit based in London and funding for the long-term is not guaranteed. Consequently, the extent that it can act as an effective fulcrum around which the response to crime against business across England and Wales, is limited. Further, its reach into the business community is limited and its engagement with business groups sporadic. The current NBCC can be built upon to make it more effective. However, to make a more significant impression on the business community it needs:

- Guaranteed and greater amounts of funding for the long-term (albeit dependent on performance) to enable NBCC to step-up engagement activity with the business community and further enhance its ability to support the network of 'business crime' SPoCs
- The police forces of England and Wales to buy into its 'mission' and dedicate more of their own resources to dealing with crimes against business
- The support of a network of full-time and fully-funded 'business crime' SPoCs in each constabulary who can develop genuine expertise in business and business crime (and small businesses in particular - which are very different in nature to larger businesses) and who will work to build strong relationships with local business communities (and smaller businesses in particular) and ensure that a reformed definition of 'business crime' is implemented by all forces

68 NBCC. About Us. No date given. Accessible at: https://nbcc.police.uk/
69 Barnard, G. National Business Crime Centre. 2018.

Police constabularies

Like PCCs, Figure 22 shows that local police forces need to do much more to demonstrate to their local business community that they are adequately focussed on business crime.

Nearly a third (32%) of those surveyed believe that their local police force adequately supports Business Crime Reduction Partnerships. Only 25% of respondents suggest that their local constabulary holds regular forums or meetings with businesses, while only a fifth (21%) say their local constabulary provides a senior officer to engage regularly with business leaders. A quarter (25%) of local police forces are said to provide bespoke advice for business about defensive measures to reduce the risk of being victims of criminality.

Figure 22: Perceptions of local police constabulary focus on small business crime
Source: FSB regional audit 2019

Constabulary measure	Percentage agreement or awareness
Adequate support for Business Crime Reduction Partnerships	32
Single point of contact provided for business community	29
Regular meetings/forums for local businesses	25
Adequate support/advice provided about making businesses safer	25
Regular high-level meetings between Senior Police Officer (SPO) and local business leaders	21
Adequate support provided for local business crime reduction initiatives	16
Adequate victim support provided	14
Sufficient collection and publication of business crime data	11
Specialist constabulary team dealing with business crime	7
Adequate Neighbourhood Police Team focus on business crime	0

Very few constabularies appear to have specialist teams dedicated to the prevention and reduction of business crime. Given the scale of crime against smaller businesses, this is disappointing and helps explain, in part, why criminality perpetrated against businesses is so widespread and costly. Similarly, very few respondents were able to confirm a single point of contact for the business community. This is particularly concerning, given that each constabulary is reported to provide such a Single Point of Contact (SPoC) for business crime.[70] However, many of these are not full-time roles. Rather, for a number SPoCs, their duties are additional to other functions. Without sufficient seniority and resource, there is often little the SPoC can do to change the indifference to small business crime in many police forces. Consequently, while potentially useful, the SPoC role is frequently hampered in its effectiveness. As a result, many are unable to add much value to the business community in their locality.

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70 College of Policing. Investigation: business crime. 2016. Accessible at: https://www.app.college.police.uk/app-content/investigations/policing-business-crime/

FSB believes that SPoCs should be full-time dedicated positions in every constabulary in England and Wales.[71] Such an approach would – at least – provide them with more time to dedicate to businesses in their area, develop knowledge, build relationships and, in time, deliver greater value for local enterprises.

Like Figure 21 above, Figure 23 looks more broadly at perceptions about the more strategic areas of crime focus, this time for police constabularies themselves rather than PCCs. And again, cyber is clearly seen as a focus for local police forces, highlighted by more than half (57%) of survey respondents. Elsewhere, the perception of priorities for local police forces follows a similar pattern to that of PCCs, with High Streets and Retail Theft lowest priorities.

Like PCCs, local constabularies appear to focus on the wrong things. Cybercrime is being prioritised, despite not being as impactful on smaller firms as the more traditional crimes highlighted in Figures 5a and 7b above. For every £1 of business cost incurred due to cybercrime, traditional crime generates around £3 of business costs. Its prominence is no doubt due, in part, to the fact that cybercrime is a National Policing Priority. This suggests that placing such priorities on police forces distracts and diverts efforts away from the needs of the local community and the small business community in particular.

Figure 23: Perceptions of local police constabulary strategic priorities
Source: FSB regional survey 2019

Crime topic/theme	Percentage
Cybercrime and security	57
Anti-social behaviour	32
Rural	29
Terrorism	21
Financial/economic	21
Night-time economy	14
Retail theft	14
High Streets	11

The small number of PCCs and police forces making business crime a priority clearly creates barriers:

> *"...the police are now deciding what a crime is. They're there to uphold the law. They decide who the victims are and whether they're going to help them or not. They decide when something's a crime or not. It doesn't matter if it's law. It doesn't matter if it's what they're meant to be doing."*
>
> Small business owner, FSB focus group

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71 Centre for Social Justice. Desperate for a Fix: Using shop theft and a Second Chance Programme to get tough on the causes of prolific drug-addicted offending. 2018.

"No common sense! The order and priorities that come down from on-high are wrong. The police and PCCs aren't bothered about the guy who had his tools nicked. They're bothered about show-boating that they're a national lead in something that has no relevance to the area."

Small business owner, FSB focus group

"...the Chief Constable and PCC work together and have their little obsession and they're not bothered about what's happening on the street. Chief Constables hide away."

Small business owner, FSB focus group

"I've no idea what the Police and Crime Commissioner's office does..."

Small business owner, FSB focus group

"...crime against business is only given lip-service at the PCC meetings I attend. It gets mentioned, but little more than that. However, efforts are being made in relation to cybercrime..."

Small business owner, FSB focus group

WHAT NEEDS TO BE DONE?

The answer to reducing levels and impacts of crime is complex, with policy interventions falling into three broad categories:[72]

- Dealing with the underlying causes behind why many people move into criminality
- Making it harder to offend by reducing the opportunities to commit crime
- Deterring criminals through making it more costly to offend (through a high likelihood of getting caught and being punished if a criminal is apprehended) and reducing the gains that can be made from criminality

Underlying causes

A series of social pathologies lay behind the growth in crime in recent decades. Action is needed across multiple dimensions including parenting, familial and wider relationships, school, educational experience and attainment, employment opportunities and substance misuse.[73]

Reducing opportunity

The deployment of defensive measures on property and the 'designing out' of crime reduces the opportunities for criminal behaviour.[74] Defensive measures range from locks and alarms through to security guards, reinforced doors and other protective methods which make it more difficult for criminals to act, especially opportunistically, against property or other assets. 'Secure by design' is a principle that applies to devices, property and the wider physical environment.[75]

More can be done to make ICT secure by design, reducing the likelihood that cyberattacks will be successful. Better street lighting, maximising natural surveillance and minimising the number of entry and exit points can help to reduce crime opportunities.[76] Limiting access to weapons, drugs and alcohol also goes some way to reducing the opportunities for criminal behaviour. Finally, diversionary activities — such as sport, creative arts and other recreational activities — can play a role in preventing criminality, especially amongst some vulnerable young people who may otherwise be drawn into crime.

Deterrence

Visible policing can be an effective way of reducing crime.[77, 78] The likelihood of being arrested deters criminality.[79] Police numbers are important for reducing crime and property crime in particular.[80, 81] An increase in the number of police officers, combined with the right kind of deployment of law enforcement and the appropriate use of data, all contribute to driving down criminality.[82] Police focus on crime 'hotspots' and pro-active community policing are both associated with crime reduction.[83, 84, 85, 86, 87]

Confidence in the authorities is also an important factor in the effective deterrence of crime, as are levels of social capital in a locality (i.e. trust among members of a local community). The ability of a community to uphold behavioural standards informally among its members is also important, as is the extent to which a community has autonomy, and thus agency, over what is happening in an area.

72 Scottish Government. What Works to Reduce Crime? A summary of the evidence. 2014.
73 Scottish Government. What Works to Reduce Crime? A summary of the evidence. 2014.
74 Home Office. Modern Crime Prevention Strategy. 2016.
75 The police support the principle of 'secured by design' through endorsing products which meet exacting security standards and encourage planners to design security into their construction plans. More information can be found on this initiative at the Secured by Design website. Accessible here: https://www.securedbydesign.com/
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87 Kelling, G L and Sousa Jr, W H. Do Police Matter? An Analysis of the Impact of New York City's Police Reforms. Civic Report No 22. 2001.

Law enforcement: key focus for smaller firms

Tackling the underlying causes of crime will require a long-term (perhaps generational) approach. However, in the more immediate term, this approach will fail to bring relief to smaller business victims - £17 billion-a-year in direct business costs is a considerable burden to bear. Defensive measures and the spread of the principle of 'secure by design' to more devices, equipment, commercial property and inhabited areas will reduce the opportunity for crime.[88] However, most importantly for smaller enterprises, local communities and the economy in the near-term (the next five years) is the law enforcement response. The focus of the remainder of this report therefore, will be on how the policing response can be improved and, consequently, how crime against business and the many negative consequences for firms, individuals, commerce and communities can be dramatically reduced.

Policing

Police resource limitations have been a significant blockage to effective action against business crime. While spending rose in the first decade of the 2000s through increases in both central government grants and council tax increases, it fell sharply between 2010 and 2015, largely as a consequence of reductions in public spending that took place under the coalition government.[89] Spending on the police fell by 14 per cent in real terms between 2010 and 2015.[90] Specifically, grants from the national Government reduced by 20 per cent over the period and - despite the 'police precept' increasing – overall spending on policing across England and Wales fell by around 3.7 per cent per year.[91] [92]

Figure 24 shows the pattern in funding between 2015 and 2019. There have been cash-terms increases since 2015 in the total resources made available to the police. However, over the period 2010 to 2018 there has been a 30 per cent real-terms reduction in the money for policing from central government and on average (between 2010 and 2016) an 18 per cent reduction in funding for the police constabularies of England and Wales from all sources.[93]

Figure 24: Police funding for England and Wales 2015 - 2019
Source: Home Office, 2018

	2015-16	2016-17	2017-18	2018-19
Total central Government funding to PCCs	£7.8bn	£7.8bn	£7.7bn	£7.7bn
Total direct resources (including the 'precept')	£10.9bn	£11bn	£11bn	£11.3bn
Total police resources[94]	£11.4bn	£11.6bn	£11.8bn	£12.3bn

The funding of the police in England and Wales has reached a critical point. The constabularies of England and Wales are under considerable financial pressure.[95] [96] [97] Further, the National Audit Office has suggested that the Home Office does not know if the police system is financially sustainable and whether the money provided is going to the right places.[98] In addition to this poor financial planning and management, current police budgets are a failure for a further reason: they do not take account of the full spectrum of issues the police have to deal with.[99] This suggests that policymakers are crying out for more and better data about the scale, scope and nature of crime and policing and its

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88 Home Office. Modern Crime Prevention Strategy. 2016.
89 Disney, R and Simpson, P. Police Workforce and Funding in England and Wales: briefing note. 2017.
90 The police in England and Wales are funded through a mixture of central government grants, administered by the Home Office and (until recently monies from the Department for Communities and Local Government - DCLG), and the 'police precept' – a supplement levied on Council Tax bills by local authorities. Source: Disney, R and Simpson, P. Police Workforce and Funding in England and Wales: briefing note. 2017.
91 Disney, R and Simpson, P. Police Workforce and Funding in England and Wales: briefing note. 2017.
92 The fall in central government grants was spread evenly across police forces during the period of cuts. However, the offsetting rise through use of the 'precept' was very uneven across forces. Consequently, although the reduction in the central grant funding was even, the net effect on forces was not. Source: Disney, R and Simpson, P. Police Workforce and Funding in England and Wales: briefing note. 2017.
93 Disney, R and Simpson, P. Police Workforce and Funding in England and Wales: briefing note. 2017.
94 These figures exclude funding for counter-terrorism, for example, which if included, would take the total policing resources figure for 2018-19 up to just under £13 billion. Source: Home Office. Police Funding for England and Wales 2015 – 2020. Statistical Bulletin 10/19. 2019.
95 NAO. Financial sustainability of police forces in England and Wales. 2018.
96 Home Affairs Select Committee. Policing for the Future; Tenth Report of Session 2017-19. 2018.
97 HMICFRS. 'Significantly Stressed' police forces need to continue to change. 2017.
98 NAO, 2018 cited in Home Affairs Select Committee. Policing for the Future; Tenth Report of Session 2017-19. 2018.
99 NAO. Financial sustainability of police forces in England and Wales. 2018.

effectiveness. Obtaining the right information to better inform resourcing and operational planning should be a policy priority for the future.

As budgets remain challenging, the demands on the police in England and Wales are rising.[100] Not only are new criminal threats emerging but existing ones are becoming more sophisticated and consequently more difficult to police.[101][102][103][104][105] Further, and in part as a reflection of the resourcing situation (including the impact on police numbers), police performance is declining, e.g. both detection and charging rates are in decline. As the Home Affairs Select Committee highlighted:[106]

"Between 2015 and 2018 there was...a 26% decrease in the number of charges or summons, with over 153,000 fewer criminals being brought to justice. Three quarters of theft offences were closed without a suspect being identified."

It is increasingly clear that the police in England and Wales do not have the manpower to deal with the levels of crime they face. This includes the levels of crime against business. The reduction in resources (in real-terms) has seen the total number of police officers in England and Wales fall by approximately 15 per cent, or 21,330, over the period 2010 to 2018. In March 2010 there were 143,734 full-time equivalent (FTE) police officers across the 43 police forces.[107] By September 2018 there were 122,404 officers in England and Wales.[108] Figure 25 shows the trend in operational police numbers in England and Wales since the year 2000.[109]

Figure 25: Number of operational police officers in England and Wales 2004 to 2018[110]
Source: House of Commons Library
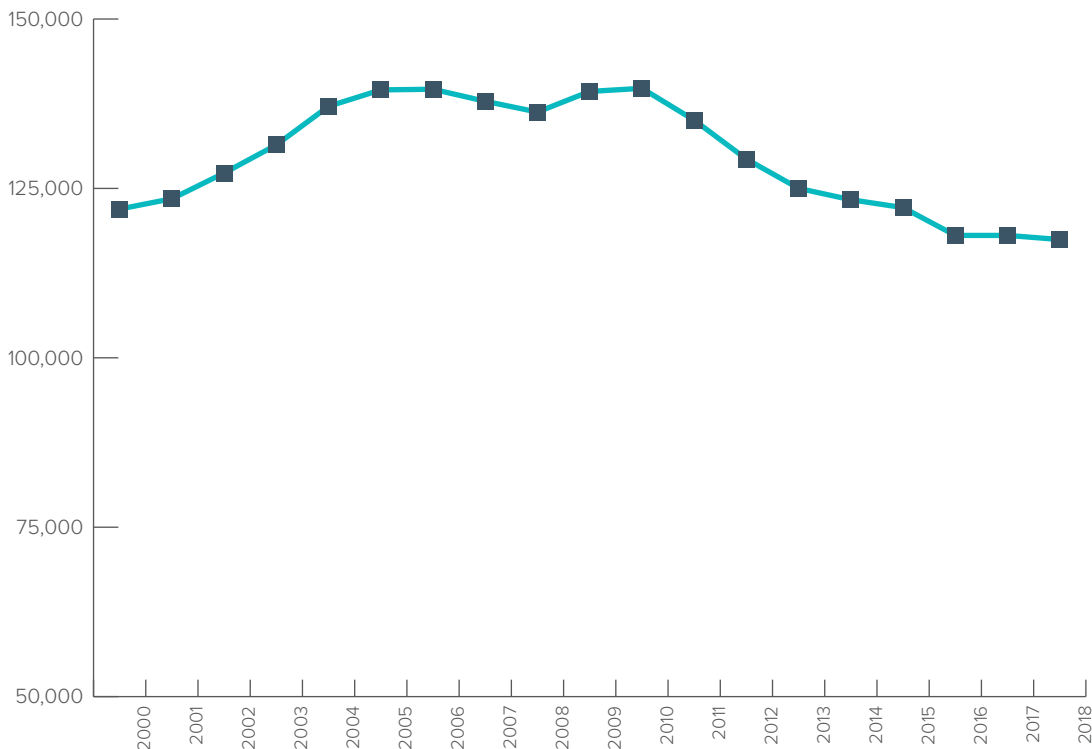
100   Home Affairs Select Committee. Policing for the Future; Tenth Report of Session 2017-19. 2018.
101   NCA. National Strategic Assessment of Serious and Organised Crime. 2018.
102   NAO. Online Fraud. 2017.
103   City of London Police. National Policing Lead for Economic Crime: Annual Review 2016-17. No date given.
104   Home Affairs Select Committee. Policing for the Future; Tenth Report of Session 2017-19. 2018.
105   NCSC and NCA. The cyber threat to UK business: 2017 – 2018 report. 2018.
106   Home Affairs Select Committee. Policing for the Future: Tenth Report of Session 2017-19. 2018.
107   Figures include long-term absentees. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/115745/hosb1410.pdf
108   Allen, G and Zyed, Y. Police Service Strength. Briefing Paper No 00634. 2019.
109   Please note that the counts in Chart are of full-time equivalents and exclude long-term absentees e.g. long-term sick, maternity leave etc and as such are not figures estimated on the same basis as the March 2010 and September 2018 figures highlighted in the text. Police head-count methodology was changed in 2000 and so data before then is not comparable.
110   Full-time equivalents. Excludes long-term absentees.

FSB focus group evidence suggests it was widely accepted that the police were under-resourced, were struggling with their core mission and that restructuring was necessary. There was broad support for any restructuring keeping the local link to ensure policing was tailored to local needs:

> *"There have to be differences in approach. In Devon and Cornwall where it's mostly rural there has to be a very different approach to somewhere like Hampshire, which has got rural but big urban areas as well."*
>
> Small business owner, FSB focus group

FSB members have also expressed a desire for more local, problem-solving community policing:

> *"...your community beat officer who used to know lots of things that happened no longer knows lots of things because you haven't got a community beat officer there. The reality of policing now is its Fire Brigade policing. They haven't got the resources and so they're racing from job-to-job. They're not coming into your place."*
>
> Small business owner, FSB focus group

A specific structural recommendation was to:

> *"...have someone who has had business experience within the force, with senior access, who acts as a buffer, a liaison between business and the police. We need someone who understands what's was going on, who is able to contribute to the police force's culture and policies so they got a better idea of what businesses in their areas do."*
>
> Small business owner, FSB focus group

However, in relation to cyber criminality there was a recognition of the need for more centralisation and specialisation:

> *"There should be a fraud squad, different to policing criminals, policing physical behaviour. It should be a national organisation which basically has specialist officers which are trained from the start in fraud and accounting."*
>
> Forensic accountant, FSB focus group

Another contributor highlighted how insurance might also play a role in incentivising smaller firms to improve their cyber-hygiene behaviours:

> *"...those best placed to influence behaviour are the insurance companies..."*
>
> Small business owner, FSB focus group

Resourcing of the police

With resources constrained (including manpower limits) the police do not prioritise businesses who are victims of crime, despite the large costs that result from crime against business to individuals, business owners, managers and employees – as well as the wider, longer-term social costs and the impact on the economy of such criminality. The Home Affairs Select Committee recognised that:[111]

> *"The current model for police funding is not fit for purpose, and should be fundamentally revised and restructured. Such heavy reliance on the council tax precept for additional funding is also unsustainable. It is time to stop kicking this problem into the long grass, and create a funding settlement for forces that is fit for the 21st century, recognising the true cost of policing. This must be based on robust evidence on resource requirements arising from diverse and complex demands."*
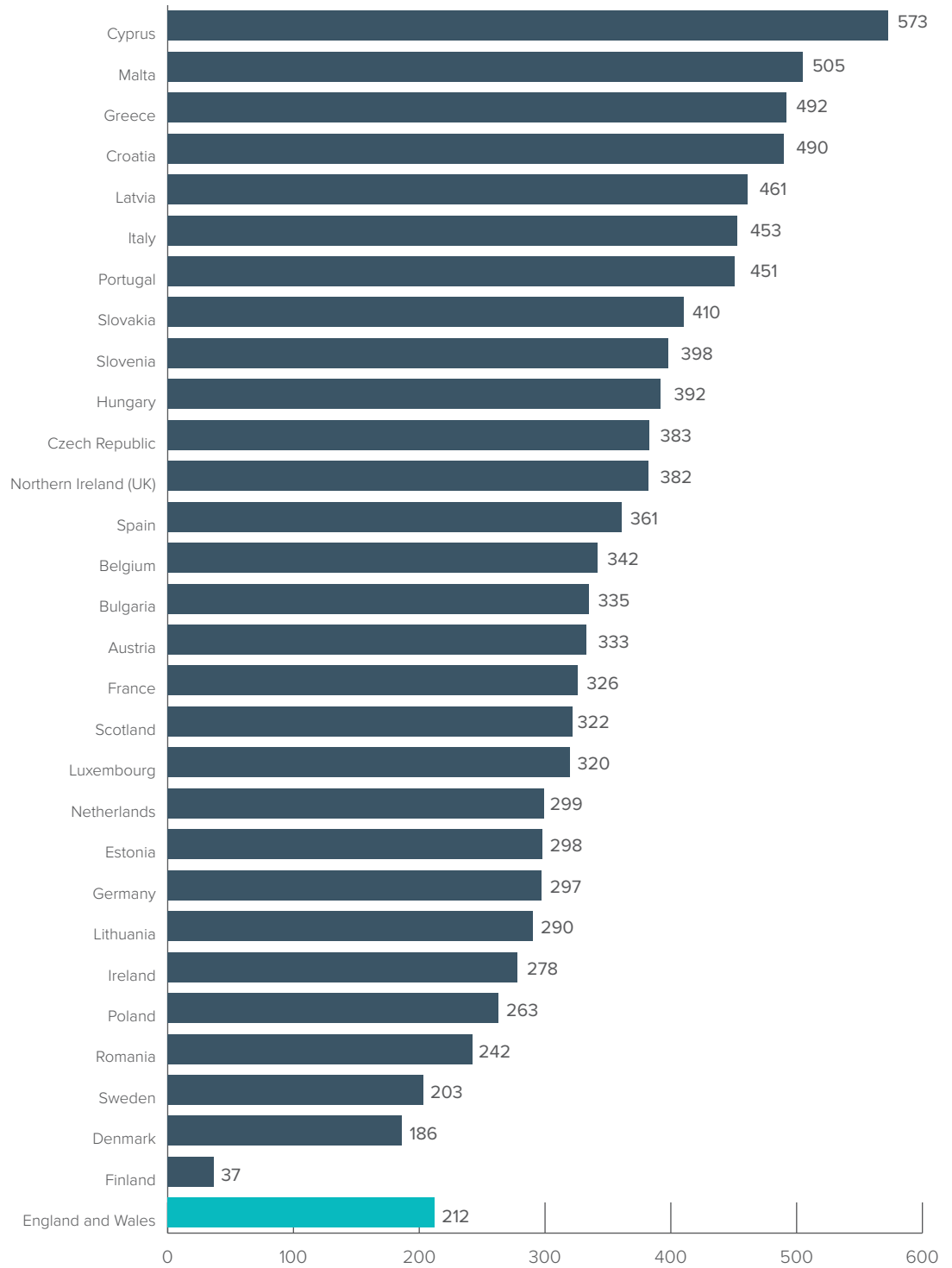
One of those 'diverse and complex' demands is that of crime against small business. Increasing substantially the police's capacity and capability to deal with the volume of crime currently committed against society and against business in particular, is vital. Further, more resources could be released for local priorities if the resources for dealing with high-total-value crime, which is frequently cross-boundary, did not have to largely come from the same budget as that which funds local policing. Having to choose between spending on, for example, Strategic Policing Priorities, collaborations with other constabularies over cross-boundary crime or spending on local (within territory) priorities distorts the incentives faced by PCCs and Chief Constables. There is a constant tug-of-war between multiple competing obligations and objectives.

Within a larger overall funding envelope, a better delineation between the purposes behind different funding streams may help reduce some of the perverse incentives. This principle is already inherent in some police funding, e.g. counter-terrorism policing and some organised crime policing is funded separately by central government. This principle could be built upon further.

Comparative analysis highlighted in Figure 26 shows that proportionately - i.e. per 100,000 of the population – police numbers are low in England and Wales, compared with many other EU Member States. Increasing police numbers in England and Wales in proportion to the population of the two nations would go a significant way towards resolving the manpower issue that all English and Welsh police forces (to varying degrees) currently face.

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111   Home Affairs Select Committee. Policing for the Future: Tenth Report of Session 2017-19. 2018.

Figure 26: Police per 100,000 of the population in EU Member States 2017
Source: Eurostat[112]

Country	Value
Cyprus	573
Malta	505
Greece	492
Croatia	490
Latvia	461
Italy	453
Portugal	451
Slovakia	410
Slovenia	398
Hungary	392
Czech Republic	383
Northern Ireland (UK)	382
Spain	361
Belgium	342
Bulgaria	335
Austria	333
France	326
Scotland	322
Luxembourg	320
Netherlands	299
Estonia	298
Germany	297
Lithuania	290
Ireland	278
Poland	263
Romania	242
Sweden	203
Denmark	186
Finland	37
England and Wales	212

112 Eurostat. Crime statistics explained: Crime statistics. 2018. Accessible at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Crime_statistics

The number of police officers per 100,000 of the population in England and Wales is 140 below the average for an EU member state. Yet there is no reason, in principle, why England and Wales – and the small business population in particular – should not be able to rely on a police service as well, if not better, resourced with officers as the Spanish, Dutch or Italian business community. Given the scale and cost of crime committed against the business community and the current inadequate efforts to deal effectively with it – and the central role that the police can play in reducing crime – there is a powerful case for such a change.

Resources are only part of the story behind why crime against business is high and there is little focus on it by law enforcement. Another key reason is that the police and PCCs have chosen not to prioritise it. The absence of public data on the scale, scope and nature of crime against business is a significant constraint in this regard. Without an idea of these factors, its unlikely scarce resources will be targeted at a corpus of criminality of which there is no clear picture. Further, the absence of any comprehensive public data makes it very difficult to hold constabularies (Chief Constables) and PCCs accountable for their lack of action towards dealing with it on any scale. It is obvious that policymakers, the public in general – and the business community in particular – need regular access to robust data about crime against businesses. This will improve the targeting of resources and increase the accountability of those making decisions over resource allocation and operational deployment. Therefore, a coherent and accurate information provision framework needs to be put in place that at least matches that available for crime against individuals and households. This has to start with a clear and useable definition of 'business crime' for police recording purposes, followed by regular public reporting of the data at neighbourhood-level, complemented by an annual business crime survey.

With the right data, resourcing and prioritisation can be done on an accurate basis. It is reasonable to expect the amount of police resource to be spent on crime against business to be proportionate to the cost of crime against business compared to the cost of crime against individuals. Further, with the wider social costs that often emanate from the presence of crime against business, there is a strong case for proportionate resourcing of policing.

METHODOLOGY

This report is based on a survey of over 1,100 FSB members, who were asked about their experience of crime in the previous two years. In addition, three focus groups with FSB members (i.e. business owners) were carried out in late 2018 and March and April 2019. The former in the South of England and the latter two in the West Midlands and Wales respectively. Finally, FSB's regional teams completed a six-question survey about the extent to which local Police and Crime Commissioners and local police forces engaged with and prioritised the local business community and crimes committed against it.

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