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**Counting the costs of
identity crime and misuse
in Australia, 2018–19**

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Abstract

This report examines the cost and impact of identity crime and misuse on the Australian economy for the 2018–19 financial year. The estimated cost of identity crime in Australia in 2018–19 (including direct and indirect costs) was \$3.1b—17 percent more than in 2015–16. These findings demonstrate a considerable increase in the financial losses experienced by government, law enforcement, industry and individuals through both direct and indirect costs associated with identity crime. The results, combined with data collected from stakeholders, help policymakers raise awareness of identity crime and reduce its incidence and impact throughout Australia. Government, law enforcement and private sector industry cooperation and data sharing were essential in the preparation of this report.

Executive summary

This report assesses the cost and impact of identity crime and misuse in Australia for the 2018–19 financial year. It presents data from Commonwealth, state and territory agencies, as well as from the private sector and other non-government sources. The Australian Institute of Criminology, within the Home Affairs portfolio, publishes this information as a key initiative of the National Identity Security Strategy.

Cost of identity crime

The estimated cost of identity crime in Australia in 2018–19 (including direct and indirect costs) was \$3.1b—17 percent more than in 2015–16. Even accounting for inflation of 5.4 percent over the three years (1.8% per year; Reserve Bank of Australia 2020), this increase is considerable. The total includes losses suffered by government agencies, Australian businesses and individuals, as indicated in Figure 1. All types of direct costs increased substantially except for the cost to Commonwealth entities, although this was partly due to a change in counting rules for this sector. Over the same period, the indirect costs of identity crime increased by 68 percent. These indirect costs include the cost to the public sector of preventing and responding to identity crime, which more than doubled.

Each year attempts have been made to improve the methodology used to estimate the cost of identity crime by including the most current data, adding newly-available sources of data and increasing the range of data examined. As such, the estimates in this report represent the best indication available of the national impact of identity crime in Australia for 2018–19. However, because of these changes to data sources and methodology, year-to-year comparisons cannot always be made.

Figure 1: Estimated total direct cost of identity crime in Australia, 2018–19



The indirect cost of identity crime in 2018–19 was estimated to add a further \$1.0b (as indicated in Figure 2), bringing the total economic impact of identity crime in Australia for 2018–19 to approximately \$3.1b.

Figure 2: Estimated total indirect cost of identity crime in Australia, 2018–19



Introduction

This report describes the methodology used to estimate the cost and impact of identity crime and misuse to the Australian economy for 2018–19, and presents the findings.

Identity crime has become one of the most prevalent criminal activities in Australia and worldwide, affecting millions of individuals, businesses and government agencies. It is imperative the financial and non-financial harms associated with this type of crime are assessed so that resources for prevention and response activities may be targeted most effectively.

Identity crime describes a range of activities in which identity credentials and other types of personal information are fabricated, manipulated, stolen or assumed in order to commit crime. Identity crime is rarely an end in itself, but is an important element of a wide range of other criminal activities. These include credit card fraud; superannuation and other financial frauds; welfare, tax and other frauds against government agencies; money laundering; gaining unauthorised access to sensitive information or facilities for unlawful purposes; and concealing activities such as drug trafficking or the production and distribution of child exploitation material. Misuse of identity has also been present in connection with the commission of terrorist acts.

The Australian Institute of Criminology (AIC) undertakes an annual Identity Crime and Misuse Survey of 10,000 Australian residents who voluntarily answer questions on their personal experience of identity crime. Respondents to the AIC's surveys are given the following definition of identity crime and misuse to assist with the collection of data:

'Identity crime and misuse' involves someone using another person's personal information without their permission. 'Personal Information' includes: name, address, date of birth, place of birth, gender, driver licence information, passport information, Medicare information, biometric information (eg fingerprint, voice, facial, iris recognition), signature, bank account information, credit or debit card information, password, personal identification number (PIN), tax file number (TFN), shareholder identification number (HIN), computer and/or other online usernames and passwords, student number, or other types of personal information.

'Identity crime and misuse' can also be perpetrated against government entities, corporations and businesses.

The misuse of personal information can have lasting consequences. Each year millions of Australians experience compromise of their personal information. Victims of these crimes suffer psychological and medical consequences that are often as serious as those experienced by victims of violent crime: anxiety, depression, distress, anger, helplessness, insecurity, betrayal, self-blame, suicidal ideation and illness (Dodge 2020). An Identity Theft Resource Center (2018) report identifies the emotional impact of identity crime, which leaves victims with overwhelmingly negative feelings about their situation. Those negative emotions can lead to physical consequences, with individuals surveyed reporting sleep issues (84%), increased stress levels (77%), persistent aches, pains, headaches and stomach issues (57%), as well as increased fatigue (55%) and decreased interest in life activities (50%; Identity Theft Resource Center 2018).

Individuals are not the only ones affected by identity crime, as government agencies and businesses are also targeted by criminals, often losing substantial amounts of money and incurring many expenses in responding to such incidents (Smith 2018). As such, it is important to quantify the nature and size of these economic and other harms experienced by the Australian community as a whole.

This report estimates that over the 2018–19 financial year, the total economic impact of identity crime in Australia was approximately \$3.1b. This includes \$2.1b in direct costs and a further \$1.0b in indirect costs, including intangible harms and lost output as well as prevention and response costs incurred by government, business and individuals.

Methodology

The first comprehensive assessment of the cost of identity fraud in Australia was undertaken by the Securities Industry Research Centre for the Asia-Pacific (Cuganesan & Lacey 2003) and it estimated that in 2001–02 the cost of identity fraud in Australia was \$1.1b.

The Australian Crime Commission (ACC 2015) estimated the costs of serious and organised identity crime for 2013–14 to be \$1.2b. Other assessments commissioned by the Attorney-General's Department (2016, 2015) have estimated the cost of identity crime to the Australian economy to be \$2b in 2015 and \$2.6b in 2016.

This study examined three components of the cost of identity crime and misuse in Australia: direct financial losses, indirect losses and the costs of preventing and responding to identity crime borne by Commonwealth, state and territory governments, police, individuals and businesses.

Baseline data came from prior research into the cost of all crime in Australia (Smith et al. 2014), the cost of fraud against the Commonwealth (Teunissen, Smith & Jorna 2020), the cost of personal fraud victimisation in Australia (ABS 2016; Franks & Smith 2020a), the cost to Australian businesses of identity crime and misuse (Smith 2018) as well as officially recorded police fraud statistics and comparable international studies.

Components of the cost of identity crime and misuse

Conventional cost of crime methodologies include both direct and indirect costs associated with any form of criminal conduct (Dubourg, Hamed & Thorns 2005; Harrell 2019; Mayhew 2003). In the case of identity crime and misuse, these relate to the following:

- Direct costs—losses actually incurred as a result of victimisation. The net losses after recovery of insurance, refunds or compensation are referred to as out-of-pocket costs and comprise:
 - *amount obtained*—the money the offender obtained from misusing the victim's account or personal information, including the estimated value of goods, services, credit, loans or cash obtained;
 - *additional costs*—costs incurred by the victim as a result of misuse or attempted misuse of personal information, including legal fees, bank fees on dishonoured cheques or funds transfers and other miscellaneous expenses such as postage, phone calls and court costs;
 - *less recoveries*—amounts recovered from offenders and any compensation and insurance payments made to victims.

- Indirect costs fall into four principal categories:
 - *prevention costs*—sometimes known as defensive expenditure, these include costs associated with document security, computer security software, credit checks, awareness-raising and prevention campaigns, legislative and policy development by government, and other security measures to guard against victimisation;
 - *intangible impacts*—harm that cannot easily be measured in monetary terms such as psychological harm and reputational damage;
 - *response costs*—expenses associated with dealing with the consequences of victimisation such as repairing a credit rating, reissuing credentials, reinstating systems, reporting to official agencies, and liaising with police and regulatory agencies to assist in their investigations; and
 - *lost output*—the lost opportunity costs and business disruption costs due to the misuse of personal and business information.

The calculation of direct costs is based on previous methodologies developed by the AIC to quantify the cost of crime in Australia (Smith et al. 2014), the extent of identity crime (Franks & Smith 2020a) and the cost of fraud against the Commonwealth (Teunissen, Smith & Jorna 2020). Officially recorded police fraud statistics have also been relied on, as well as information derived from comparable international studies.

The category of additional direct costs is based on 2016 data from the United States Bureau of Justice Statistics (Harrell 2019), updated and converted to Australian dollar values for 2019 using purchasing power parities constructed by the Organisation for Economic Co-operation and Development (OECD). Purchasing price parity is the exchange rate needed to equalise the purchasing power of two currencies in their respective countries (OECD 2020). Australia’s rate in 2019 was approximately A\$1.47, meaning one would need to spend A\$1.47 in Australia to buy the quantity of goods or services that would cost US\$1 in the United States. This exchange rate was applied to public sector, private sector, serious fraud and individual identity crime direct costs where relevant.

Indirect costs were calculated using Mayhew’s (2003) estimate that indirect costs—including preventive, intangible, response and lost output costs—are 40 percent of direct costs.

The total financial impact of identity crime in Australia comprises the direct and indirect costs relating to Commonwealth entities, state and territory agencies including police, individuals and businesses, as shown in Table 1. The total financial impact of identity crime in Australia in 2018–19 is estimated to amount to \$3.1b.

| Category | | Cost |
|----------------------------------|--|---------------|
| Direct costs | Amount obtained | 2,124,902,854 |
| | Additional costs | 4,877,450 |
| Indirect costs | Public sector costs (including state and territory police) | 789,931,080 |
| | Private sector costs | 20,449,399 |
| | Costs incurred by individuals | 201,121,608 |
| Total estimated financial impact | | 3,141,282,391 |

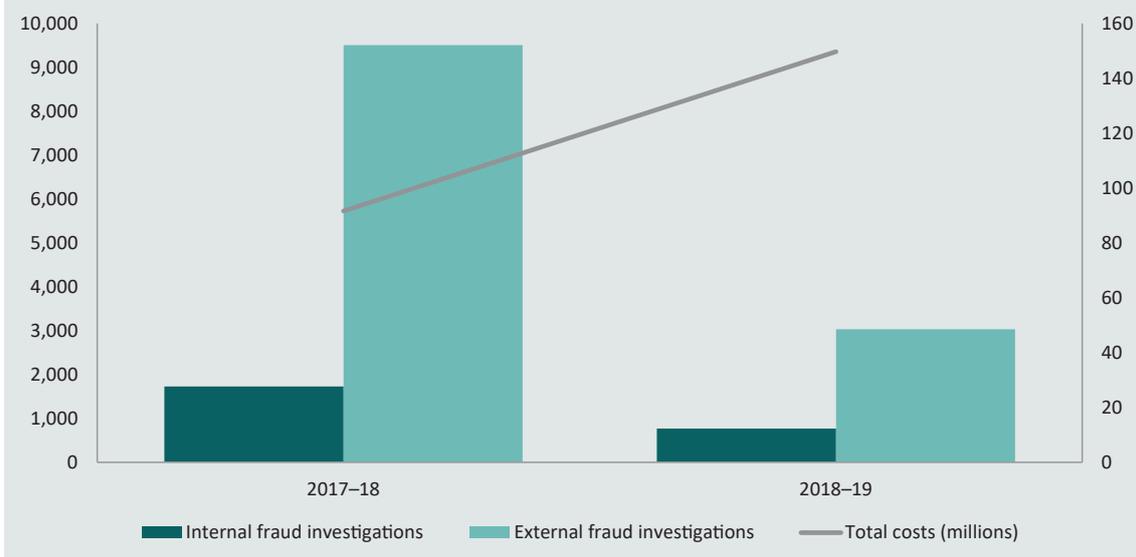
Note: Further information can be found in Franks & Smith 2020a

Direct costs

Costs to Commonwealth government entities

For the purposes of the current report, data from the report *Commonwealth fraud investigations 2017–18 to 2018–19* (Teunissen, Smith & Jorna 2020) were used to estimate direct identity crime losses experienced by Commonwealth entities (Figure 3). The AIC’s Commonwealth Fraud Census counted finalised investigations divided into internal fraud (carried out by individuals who were employees or contractors of the entity) and external fraud (carried out by individuals who were not employees or contractors of the entity). Cases where it was uncertain whether an investigation concerned internal or external fraud, and cases that principally involved collusion between internal and external actors, were treated as internal fraud (Teunissen, Smith & Jorna 2020).

Figure 3: Finalised fraud investigations reported by Commonwealth entities, 2017–18 to 2018–19



Source: Teunissen, Smith & Jorna 2020

In 2018–19, Commonwealth entities reported finalising 3,797 fraud investigations in which allegations were substantiated, 3,012 with identifiable losses worth \$149,680,728 (Teunissen, Smith & Jorna 2020). This equates to approximately \$49,695 per fraud investigation ($N=3,012$), a substantial 530 percent increase over the \$7,887 per fraud investigation recorded for 2017–18. A multiplier of 1.15 was applied (Smith et al. 2014) to account for frauds that were undetected or not included in the annual census. This inflated the total number of fraud investigations involving losses to 3,464, with an estimated value of \$172,132,837.

Of the amounts lost to fraud in 2018–19, entities recovered \$54,762,711 in reparations or repayments, although not all of the monies recovered related to losses incurred in the same year. It was not possible to determine if the amounts recovered included any incidents of identity fraud. Deducting this amount from the total leaves a net total loss of \$117,370,126.

The AIC’s Commonwealth Fraud Census counted finalised investigations rather than fraud incidents and, in addition, did not capture ‘misuse of identity’ directly but quantified specific Commonwealth fraud targets and misuse methods. Identity crime plays a part in numerous types of Commonwealth fraud and because respondents to the census did not specifically identify investigations of identity crime, a general indication of the incidence of this crime type could only be estimated.

The previous report on the cost of identity crime and misuse in Australia (Smith & Jorna 2018a) estimated that one-quarter (25%) of all Commonwealth fraud investigations could have entailed identity crime or misuse. For the present report, a more refined estimation methodology was developed based on the latest data. This resulted in the estimated proportion of Commonwealth fraud investigations involving identity crime and misuse growing to 40 percent. This estimate was arrived at by analysing all reported Commonwealth fraud targets and misuse methods systematically, with each assigned a percentage representing the involvement of identity crime and misuse. The mean of finalised Commonwealth fraud investigations with identity crime relevance was 40 percent, resulting in total estimated identity crime costs for Commonwealth entities at \$46,948,332 (Table 2).

| Index | Direct costs |
|--|---------------|
| Substantiated investigations with identifiable loss | 3,012 |
| Multiplier (unreported or undetected fraud) | 1.15 |
| Investigations × multiplier | 3,464 |
| Unit cost | \$49,695 |
| Subtotal | \$172,133,541 |
| Recovered amounts | \$54,762,711 |
| Total (out of pocket) | \$117,370,830 |
| % related to identity crime | 40 |
| 2018–19 identity crime costs for Commonwealth entities | \$46,948,332 |

Source: Teunissen, Smith & Jorna 2020

Costs to individuals

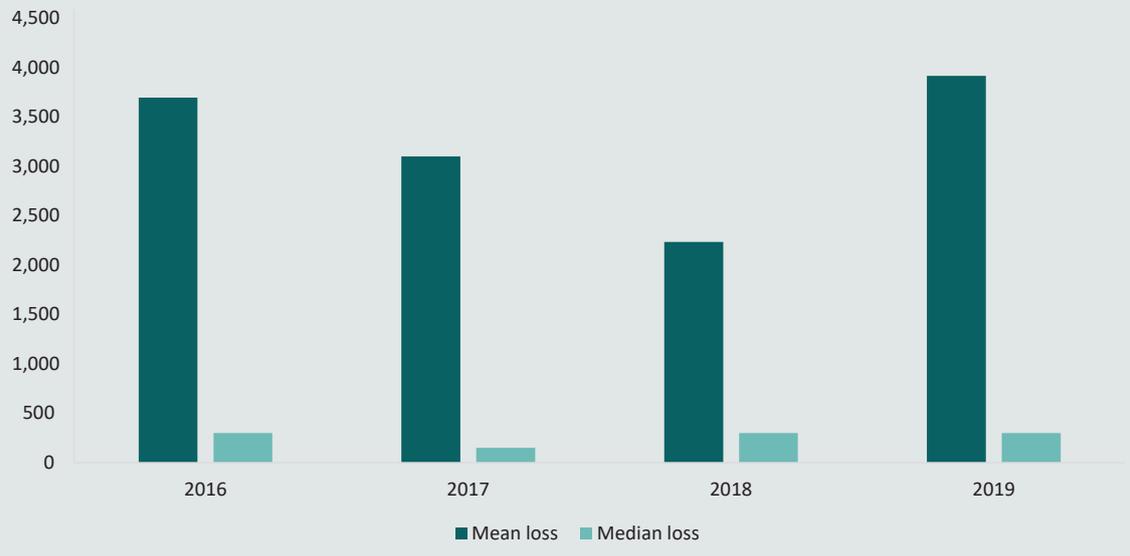
The cost of identity crime to individuals is best estimated using the findings of crime victimisation surveys, as these avoid the need to inflate the number of offences recorded by police to account for unreported crimes. In the case of identity crime, the proportion of offences not reported is difficult to determine precisely and estimates are generally considered to be extremely unreliable.

The most authoritative data source was a national survey conducted by the Australian Bureau of Statistics (ABS 2016) for the year 2014–15. This survey found 8.5 percent of people aged 15 years and over had experienced at least one incident of personal fraud in the previous 12 months. However, one must consider the rapid, ever-evolving dynamics of cybercrimes. The AIC's 2019 identity crime survey (Franks & Smith 2020b) found 11.4 percent of respondents had experienced identity crime in the 12 months prior to completing the survey, consistent with the result of 11.5 percent the previous year. However, the 2019 survey used an online panel sample and, although large, it was not nationally proportional. It is therefore prudent to reduce the victimisation rate slightly to account for the fact that the survey sample was composed totally of online users, which could inflate the victimisation rate. Accordingly, it is reasonable to reduce this to 10 percent rather than 11.4 percent. When the ABS publishes more recent data, a more accurate national victimisation rate will be possible.

At 30 June 2019, Australia's estimated resident population was 25,364,300, with 19.3 percent aged under 15 years (ABS 2020). Applying the victimisation rate of 10 percent to the 20,722,633 residents aged 15 and over means an estimated 2,072,263 individuals were victims of identity crime in 2018–19. Data on identity crime victimisation of people aged under 15 years were not available and, although it is possible that some of them may have been victimised, for the purposes of the present costing they have not been included.

The AIC's 2019 identity crime survey (Franks & Smith 2020b) also found that 909 out of 1,140 (80%) respondents who reported experiencing misuse of their information experienced a financial loss as a result. These victims experienced out-of-pocket losses ranging between \$1 and \$1,000,000, with total out-of-pocket losses of \$2.4m (slightly higher than the \$2.1m experienced in 2018). The average amount lost increased dramatically, growing 75 percent, while the median amount lost remained the same (Figure 4).

Figure 4: Mean and median out-of-pocket losses suffered by victims of identity crime and misuse, 2016 to 2019 (\$)



Note: Data weighted by age/gender

Source: Smith & Jorna 2018b; Goldsmid, Gannoni & Smith 2018; Jorna, Smith & Norman 2020; Franks & Smith 2020b

Estimates of the mean losses suffered by victims can vary greatly depending on the methodology used to collect the relevant data. The median is a better measure of the direct cost of misuse of personal information as the loss amounts are highly skewed (see Table 3). Losses recorded by IDCARE were much higher, probably because IDCARE deals with victims who require assistance and support due to the large losses they have experienced.

Table 3: Mean and median losses suffered by victims of identity crime and misuse (\$)

| Source | Mean | Median |
|-----------------------------------|--------|--------|
| IDCARE 2019 | 18,165 | 3,000 |
| IDCARE 2018 | 20,975 | 2,600 |
| AIC survey 2019 | 3,916 | 300 |
| AIC survey 2018 | 2,234 | 300 |
| AIC survey 2017 | 3,101 | 150 |
| AIC survey 2016 | 3,696 | 300 |
| ABS Personal Fraud Survey 2014–15 | 2,700 | 400 |

Note: IDCARE deals specifically with victims who require assistance and support, often involving large losses, whereas ABS and AIC surveys canvass the general population. The ABS Personal Fraud Survey includes card fraud, identity theft and consumer scams. AIC survey data were weighted by age/gender

Source: IDCARE 2018; IDCARE 2020; Smith & Jorna 2018b; Goldsmid, Gannoni & Smith 2018; Jorna, Smith & Norman 2020; Franks & Smith 2020b; ABS 2016

Of the \$2.4m in total losses reported by respondents, only 36 percent was recovered (Franks & Smith 2020b) which is considered in the out-of-pocket median amount lost of \$300.

Based on the estimated victimisation rate of 10 percent and the population estimate of 20,722,633 people over the age of 15 years, there were 2,072,263 victims of identity crime in Australia in 2018–19. Using the AIC’s 2019 survey finding that 80 percent of victims suffered a financial loss, and the median reported out-of-pocket loss of \$300, the total cost to individual victims of identity crime in Australia in 2018–19 is estimated to be \$497,343,194. (Table 4).

| Table 4: Direct costs of identity crime to individuals, 2018–19 | |
|--|---------------|
| Index | |
| Population estimate (over 15 years of age) | 20,722,633 |
| Identity fraud victimisation rate (%) | 10.0 |
| Population estimate × victimisation rate = identity crime victims (<i>n</i>) | 2,072,263 |
| Victims suffering a direct financial loss (80%) | 1,657,811 |
| Median out-of-pocket loss per victim | \$300 |
| Total direct costs of identity crime to individuals in 2018–19 | \$497,343,194 |

Source: ABS 2020; Franks and Smith 2020b

Cost of serious identity crime

Serious and organised crime is costly and of increasing concern to the community. The AIC estimated that serious and organised crime cost the Australian community between \$23.8b and \$47.4b in 2016–17, with the direct cost of identity crime alone being between \$412m and \$1.2m (Smith 2018). The Australian Government acknowledged the relevance of and increasing incidence of serious fraud offending by establishing the Serious Financial Crime Taskforce on 1 July 2015. This joint-agency task force is led by the Australian Taxation Office and brings together the knowledge, resources and experience of relevant Australian law enforcement and regulatory agencies to identify and address the most serious and complex forms of financial crime (Australian Taxation Office 2020).

‘Seriousness’ can be defined on the basis of the level of financial loss, the sophistication of | the planning and execution of the offence, or whether the offences were committed by professionals (such as solicitors, accountants, financial planners or mortgage brokers) who breach clients’ trust (Smith et al. 2014). Because not all serious and organised fraud involves identity crime, and the proportion that relates to identity crime is not known, a different method of calculation is required to determine the cost of identity crime involving serious fraud.

The Association of Certified Fraud Examiners (2020) published its *Report to the nations: 2020 global study on occupational fraud and abuse* in an effort to communicate the potential extent and financial impact of international fraud. In this report, more than 2,000 anti-fraud experts estimated that organisations worldwide lose approximately five percent of their annual revenue to fraud (Association of Certified Fraud Examiners 2020). If this five percent figure is applied to the 2019 gross world product figure of US\$86.6 trillion (A\$141.1 trillion), the estimated cost of economic fraud globally would equate to A\$7.1 trillion (Association of Certified Fraud Examiners 2020).

In 2012, KPMG surveyed 281 organisations in Australia and New Zealand and found that the participating organisations had experienced 194,454 incidents of fraud in the two years prior to the survey, worth \$372.7m (KPMG 2013). KPMG found only 46 percent of these major incidents of fraud were reported to police. Serious fraud was defined as an incident resulting in a loss of more than A\$1m, which occurred in 20 cases (KPMG 2013).

Between November 2018 and February 2019, KPMG (2019) conducted its Global Banking Survey of 43 retail banks, 13 of which were in Australasia. It found that 61 percent of respondents indicated their total volume of external fraud had increased between 2015 and 2018; 31 percent also reported an increase in internal fraud between 2017 and 2018 (KPMG 2019).

PricewaterhouseCoopers’ (2018) *Global economic and fraud survey* found a 13 percentage point increase in the proportion of respondents reporting economic crime over the previous two years. When examining the Australasian region, this rate increased 16 percentage points, from 30 percent in 2016 to 46 percent in 2018—a mean eight percentage point increase each year (PricewaterhouseCoopers 2018).

For the purpose of the present report and to account for this increase in fraud rates, it was assumed that 325 fraud incidents could have involved losses of \$1.5m each, totalling \$487.5m in respect of serious fraud incidents reported to police (Smith et al. 2014). As KPMG (2013) found that not all serious frauds were reported to the police, a multiplier of 2.17 (Smith et al. 2014) was used to account for the 54 percent of frauds not reported. Using this multiplier, it is estimated that 705 serious incidents of fraud would have occurred, worth \$1,057,500,000.

As previously noted, not all serious fraud involves identity crime. Assuming that similar proportions of serious fraud and fraud against the Commonwealth involve identity crime (40%), it is estimated the direct cost of serious fraud involving identity crime in 2018–19 would be \$423m (Table 5).

Table 5: Direct costs of identity crime involving serious fraud, 2018–19

| Index | Direct costs |
|--|-----------------|
| Incidents (<i>n</i>) | 325 |
| Multiplier | 2.17 |
| Incidents × multiplier (<i>n</i>) | 705 |
| Unit cost (\$) | \$1,500,000 |
| Subtotal | \$1,057,500,000 |
| Recovered monies | Unknown |
| Total | \$1,057,500,000 |
| % related to identity crime | 40 |
| Total out-of-pocket cost of serious fraud in 2018–19 | \$423,150,000 |

Source: KPMG 2013; Reserve Bank of Australia 2020; Smith et al. 2014; Teunissen, Smith & Jorna 2020

Police-recorded identity crime

In 2018–19, there were 116,643 fraud and deception offences recorded by police throughout Australia, based on data obtained from individual police jurisdictions, crime statistics agencies and police annual reports. Added to this number are the 25 referrals from Commonwealth entities accepted by the Australian Federal Police in 2018–19 (Teunissen, Smith & Jorna 2020), bringing the total to 116,668 fraud offences.

To avoid double-counting, the following have been deducted from the total of 116,668 recorded fraud offences:

- 89 incidents of fraud against the Commonwealth that were referred to state and territory police by Commonwealth entities;
- 705 serious fraud offences that were counted in the serious fraud section above; and
- 70,457 incidents of personal fraud based on the ABS Personal Fraud Survey 2014–15 finding that 3.4 percent of people reported to police (3.4% of 2,072,263 individual victims of identity crime; ABS 2016).

This brings the total estimated number of officially recorded fraud incidents to 45,417.

Mayhew (2003) estimated that only 25 percent of all fraud incidents are reported. Accordingly, the estimated number of recorded offences (45,417) needs to be multiplied by four to determine the total number of frauds, recorded and unrecorded. This results in an estimate of 181,668 recorded and unrecorded fraud offences.

In estimating the unit cost of fraud offences, both Mayhew (2003) and Rollings (2008) adopted different values for recorded and unrecorded fraud on the assumption that a person or organisation was more likely to report a higher value fraud than a lower value incident. For recorded fraud, Mayhew applied a unit cost of \$9,900 in 2001 and Rollings increased this to \$21,500 for 2005. For unreported fraud, Mayhew estimated a unit cost of \$1,590 for 2001, while Rollings inflated this to \$3,390 for 2005 (Smith et al. 2014).

The Reserve Bank of Australia's (2020) inflation calculator was used to calculate the unit cost of the 116,668 frauds recorded in 2018–19. The inflated unit costs were estimated to be \$29,831 for recorded fraud and \$4,703 for unrecorded fraud (181,668 incidents). This gave a total cost of \$5,126,391,920 for all fraud offences.

However, not all fraud offences involve identity crime. Recent research in the United Kingdom estimated that identity fraud was involved in 58 percent of all fraud offences recorded in 2019, up eight percent from 2018 (Cifas 2019). The resulting cost of identity crime as a proportion of police-recorded and unrecorded fraud is estimated to be \$1,157,461,328 (Table 6).

| Table 6: Direct costs of police-recorded fraud involving identity crime, 2018–19 | |
|--|--|
| Index | Direct costs |
| Incidents | 45,417 |
| Multiplier | 4.0 |
| Incidents × multiplier | 181,668 (45,417 recorded and 136,251 unrecorded fraud) |
| Unit cost | \$29,831 (recorded) and \$4,703 (unrecorded) |
| Subtotal | \$1,995,622,980 |
| Recovered monies | Unknown |
| % involving identity crime | 58.0 |
| Total direct costs of police-recorded identity crime in 2018–19 | \$1,157,461,328 |

Source: State and territory police data (see Franks & Smith 2020a)

Additional direct costs

In addition to direct out-of-pocket losses, victims of identity crime and misuse can incur various other costs such as fees for replacing identification documents, legal fees, bank fees, psychological and/or medical consultation payments, fines and miscellaneous expenses such as postage, phone calls and court costs.

In the absence of relevant Australian research on these costs, this study has relied on the results of Bureau of Justice Statistics surveys carried out in the United States (Harrell 2019). Harrell found that, in 2016, 5.4 percent of identity theft victims reported incurring additional costs during the preceding 12 months as a result of the theft. These victims reported mean additional costs of US\$250 (A\$363 in 2016 dollars, calculated using the OECD’s (2020) purchasing power parity, inflated to A\$383 in 2019 dollars using the Reserve Bank of Australia’s (2020) calculator). The US survey also found a median cost of US\$20 (A\$29 in 2016 dollars, calculated using the OECD’s (2020) purchasing power parity, inflated to A\$31 in 2019 dollars using the Reserve Bank of Australia’s (2020) calculator).

| Fraud category | Incidents (after multiplier applied) | Incidents incurring additional costs | Unit cost | Loss amount subtotal | % involving identity crime | Total additional costs in 2018–19 |
|-----------------------|--------------------------------------|--------------------------------------|-----------|----------------------|----------------------------|-----------------------------------|
| Commonwealth fraud | 3,464 | 187 | \$31 | \$5,799 | 40 | \$2,348 |
| Individual fraud | 2,072,263 | 111,902 | \$31 | \$3,468,968 | 90 | \$3,122,071 |
| Serious fraud | 705 | 38 | \$383 | \$14,581 | 40 | \$5,905 |
| Police-recorded fraud | 181,668 | 9,810 | \$383 | \$3,757,258 | 58 | \$1,747,125 |
| Total | | | | | | \$4,877,450 |

Note: Unit costs calculated using OECD purchasing power parity rate for Australia (against US) in 2016: 1.45. Number of incidents incurring additional costs calculated as 5.4% of incidents (Harrell 2019)

Source: Harrell 2019; Teunissen, Smith & Jorna 2020; Franks & Smith 2020a; OECD 2020; Reserve Bank of Australia 2020

Summary of direct costs

Table 8 shows a summary of estimated total direct costs by sector.

| | Amount obtained | Additional costs ^a | Total |
|-------------------------------------|----------------------|-------------------------------|----------------------|
| Fraud against Commonwealth entities | 46,948,332 | 2,348 | 46,950,680 |
| Personal fraud | 497,343,194 | 3,122,071 | 500,465,265 |
| Serious fraud | 423,150,000 | 5,905 | 423,155,905 |
| Police-recorded fraud | 1,157,461,328 | 1,747,125 | 1,159,208,453 |
| Total | 2,124,902,854 | 4,877,450 | 2,129,780,304 |

a: Additional costs based on US\$ converted to A\$ using the OECD purchasing power parity rate of 1.45 A\$ to US\$1 in 2016 (OECD 2020)
Source: Derived from Smith et al. (2014)

Indirect costs

The above calculations show the direct costs of identity crime incurred by Commonwealth entities and individuals and involving serious fraud and police-recorded fraud. There are, however, additional indirect costs borne by agencies and individuals. These include prevention costs, intangible costs, response costs and the cost of lost output.

Public sector indirect costs were estimated using the proportion of government spending in 2018–19 that related to preventing and responding to identity crime. Private sector and individuals' indirect costs were based on Mayhew's (2003) estimate that indirect costs of crime are 40 percent of the direct costs. An expert panel estimated that only four percent of these costs could reasonably be considered to be the costs of preventing and responding to identity crime (see Smith 2018).

Table 9 shows the total indirect cost estimates in each category and the overall total indirect cost of \$1.0b for 2018–19.

| Category | Cost |
|--|----------------------|
| Public sector prevention and response costs (excluding state and territory police) | 583,731,080 |
| State and territory police prevention and response costs | 206,200,000 |
| Indirect costs to private sector ^a | 20,449,399 |
| Indirect costs to individuals | 201,121,608 |
| Total indirect costs | 1,011,502,087 |

a: See Smith (2018) for calculations of private sector prevention and response costs. These costs were adjusted using the Reserve Bank of Australia's (2020) inflation calculator

Public sector prevention and response costs

In addition to the estimated losses borne by Commonwealth agencies and others detailed above, there are costs associated with Commonwealth, state and territory agencies preventing, detecting and investigating identity crime and misuse. These include the costs associated with implementing new policies aimed at reducing identity crime, running awareness programs, purchasing biometric software and investigating identity crime.

Table 10 presents information from the 2018–19 Portfolio Budget Statements of Commonwealth, state and territory agencies that have functions and programs that relate to crime and its control, including policies on the prevention and remediation of identity crime. This table includes the agencies' appropriations and the estimated percentage related to identity crime.

| Table 10: Identity crime prevention and response costs of Commonwealth, state and territory agencies, 2018–19 | | | |
|--|--------------------|------------------------------|---|
| Agency/state | Appropriation (\$) | % relating to identity crime | Estimated identity crime-related costs (\$) |
| Commonwealth entities | | | |
| Attorney-General's Department | 170,930,000 | 5 | 8,546,500 |
| Australian Criminal Intelligence Commission | 197,067,000 | 10 | 19,706,700 |
| Australian Federal Police | 1,679,386,000 | 5 | 83,969,300 |
| Australian Signals Directorate | 827,325,000 | 5 | 41,366,250 |
| Australian Taxation Office | 3,907,101,000 | 1 | 39,071,010 |
| Department of Human Services | 6,135,239,000 | 1 | 61,352,390 |
| Department of Home Affairs | 3,248,688,000 | 2 | 64,973,760 |
| Commonwealth Director of Public Prosecutions | 99,215,000 | 1 | 992,150 |
| Australian Transaction Reports and Analysis Centre (AUSTRAC) | 92,726,000 | 2 | 1,854,520 |
| Office of the Australian Information Commissioner | 18,566,000 | 5 | 928,300 |
| Australian Competition and Consumer Commission | 261,702,000 | 10 | 26,170,200 |
| State government agencies^a | | | |
| New South Wales | 3,781,300,000 | | 54,300,000 |
| Victoria | 2,871,500,000 | | 90,700,000 |
| Queensland | 891,700,000 | | 15,600,000 |
| Western Australia | 1,253,200,000 | | 24,900,000 |
| South Australia | 893,400,000 | | 11,500,000 |
| Tasmania | 111,600,000 | | 1,800,000 |
| Australian Capital Territory | 216,700,000 | | 4,200,000 |
| Northern Territory | 646,600,000 | | 31,800,000 |
| Total | | | 583,731,080 |

a: See the *Appendix* for a breakdown of state government expenditure

Source: Treasury 2020; New South Wales Treasury 2020; Victorian Government 2020; Queensland Treasury 2020; Western Australian Government 2020; South Australian Government 2020; Tasmanian Government 2020; Australian Capital Territory Government 2020; Northern Territory Government 2020

State and territory police prevention and response costs

According to the *Report on government services*, real recurrent expenditure on police services for 2018–19 (including user cost of capital, less revenue from own sources and payroll tax) was \$12,889m (Steering Committee for the Review of Government Service Provision 2020). This relates to state and territory policing only and excludes the cost of the Australian Federal Police and other federal law enforcement agencies, such as the Australian Criminal Intelligence Commission and the Department of Home Affairs, which are included in Table 10 above. However, not all police time is spent on crime, and the amount of police time spent on identity crime would be even less. Based on the estimate used in Smith et al. (2014) that 80 percent of police time is spent investigating crime, the total cost of policing crime in Australia in 2018–19 was \$10,311m. Assuming that two percent of police time is spent investigating identity crime matters, the total cost of policing identity crime in Australia in 2018–19 was \$206.2m.

Indirect costs to the private sector

It is difficult to determine the cost to business of preventing and responding to identity crime as expenditure may relate to a wide variety of matters. Prevention costs include those relating to physical security, computer security, document security and shredding, identity verification and staff and customer identity checks. The response costs include those associated with reversing fraudulent transactions, reinstating systems following identity crimes, replacing staff, investigating incidents and liaising with criminal justice personnel. Businesses also face reputational costs and lost opportunity costs of forgone profit associated with responding to identity crime and misuse.

Cuganesan and Lacey (2003) estimated prevention and response costs for identity fraud to be 38 percent of the total cost of identity crime. Mayhew (2003), in her analysis of the cost of crime in Australia, estimated that 40 percent of direct losses should be added to account for indirect costs, including prevention and response costs, lost output and intangible losses.

Smith (2018) analysed the elements of the present costing of identity crime in Australia that relate solely to businesses. This entailed estimating the percentage of the direct cost of fraud attributable to Australian businesses, and then adding 40 percent to account for prevention and response costs, lost output and intangible losses (as defined by Mayhew 2003). Finally, it was estimated by an expert panel (see Smith 2018) that only four percent of these indirect costs to businesses would be incurred as a result of identity crime. The calculations are set out in Smith (2018).

The total indirect identity crime costs to businesses in 2018–19 year were, accordingly, \$20m (Table 11). These calculations do not include prevention and response costs incurred by private sector organisations other than businesses, such as not-for-profit organisations.

| Category | Direct cost (\$) | % business ^a | Business cost (\$) |
|---|------------------|-------------------------|--------------------|
| Commonwealth entities | 46,952,440 | 2(2) | 939,049 |
| Individuals | 502,804,021 | 5(2) | 25,140,201 |
| Serious fraud | 423,163,812 | 90(3) | 380,847,431 |
| Police-recorded | 1,161,547,667 | 75(1) | 871,160,750 |
| Total direct amounts obtained and additional costs | 2,134,467,940 | | 1,278,087,431 |
| Indirect business costs (40% of all direct costs) | | | 511,234,972 |
| Indirect business costs involving identity crime (4%) | | | 20,449,399 |

a: Numbers in parentheses indicate confidence in each estimate (3=high, 2=medium, 1=low) based on ratings from an expert panel
Source: Franks & Smith 2020a; Smith 2018

Indirect costs to individuals

Individual victims also incur costs associated with preventing and responding to identity crime. Table 12 shows Mayhew’s (2003) estimate applied to the direct and additional costs of identity crime experienced by individuals. For 2018–19, the estimated indirect cost of identity crime to individuals was \$201m.

| Prevention and response category | Direct costs | Additional costs | Total |
|--|--------------|------------------|-------------|
| Total direct costs to individuals | 497,343,194 | 5,460,827 | 502,804,021 |
| Total indirect prevention and response costs (40%) | 198,937,278 | 2,184,331 | 201,121,608 |

Source: Franks & Smith 2020a; Mayhew 2003

Conclusion

Identity crime and misuse of personal information remains an ongoing concern for the Australian community. The goal of this report was to assess the economic cost and impact of identity crime in Australia by presenting a range of quantitative and qualitative information. A large number of Commonwealth, state and territory government agencies provided data for inclusion in the report, and it was only with the assistance of these agencies and private sector organisations that the cost of identity crime could be understood and estimated. Further research is, however, needed to understand the full extent of the problem, particularly through improvements to official statistical holdings and private sector data collection as well as further surveys of members of the public.

Despite advances in verification of credentials and improvements in online authentication procedures, victimisation continues to increase. Financial losses also continue to rise, along with the equally harmful non-financial consequences including damage to credit ratings, the consequences of being wrongly accused of crime and a range of psychological and emotional harms. Continued monitoring of these trends is valuable for identifying changes in identity crime methodologies and assessing the benefits derived from and risks associated with crime prevention initiatives.

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Appendix: State and territory agency indirect costs

Table A1: Indirect costs of identity crime to state and territory agencies, 2018–19

| New South Wales | Budget (\$m) | % identity related | Total (\$m) |
|---|-----------------|--------------------|--------------|
| Breaking the cycle of reoffending | 1,967.20 | 1 | 19.67 |
| Effective and efficient resolution of legal disputes | 587.10 | 1 | 5.87 |
| Maintain rights and records | 448.50 | 2 | 8.97 |
| Resilient to disasters and emergencies | 161.20 | 5 | 8.06 |
| Crown Solicitor's Office | 57.90 | 2 | 1.16 |
| Information and Privacy Commission | 5.80 | 20 | 1.16 |
| Legal Aid Commission of NSW | 358.10 | 2 | 7.16 |
| NSW Crime Commission | 27.20 | 2 | 0.54 |
| Judicial Commission of NSW | 6.80 | 2 | 0.14 |
| Director of Public Prosecutions | 161.50 | 1 | 1.62 |
| Total | 3,781.30 | | 54.35 |
| Victoria | | | |
| Public prosecutions and legal assistance | 270.30 | 1 | 2.70 |
| Infringements and warrants | 211.10 | 2 | 4.22 |
| Criminal law support and reform | 76.70 | 1 | 0.77 |
| Victims and community support services | 61.00 | 5 | 3.05 |
| Protection of personal identity and individual/community rights | 48.70 | 80 | 38.96 |
| Dispute resolution and civil justice support services | 49.20 | 2 | 0.98 |
| Emergency management capability | 1,252.60 | 2 | 25.05 |
| Gambling, liquor and racing | 136.40 | 1 | 1.36 |
| Regulation of the Victorian consumer marketplace | 149.80 | 5 | 7.49 |
| Court Services Victoria | 615.70 | 1 | 6.16 |
| Total | 2,871.50 | | 90.75 |

| Table A1: Indirect costs of identity crime to state and territory agencies, 2018–19 (continued) | | | |
|--|---------------------|-----------------------------------|--------------------|
| Queensland | Budget (\$m) | % identity related | Total (\$m) |
| Justice services | 387.95 | 2 | 7.76 |
| Legal and prosecution services | 127.08 | 1 | 1.27 |
| Liquor, gaming and fair trading | 90.30 | 1 | 0.90 |
| Crime and Corruption Commission | 62.78 | 2 | 1.26 |
| Legal Aid Queensland | 159.23 | 2 | 3.18 |
| Office of the Information Commissioner | 7.14 | 2 | 0.14 |
| Electoral Commission of Queensland | 48.03 | 2 | 0.96 |
| Queensland Ombudsman | 9.16 | 1 | 0.09 |
| Total | 891.67 | | 15.57 |
| Western Australia | | | |
| Justice services delivery total | 1,177.30 | 2 | 23.55 |
| Legal Aid Commission of WA | 1.26 | 2 | 0.03 |
| Director of Public Prosecutions | 39.79 | 1 | 0.40 |
| Corruption and Crime Commission | 27.07 | 2 | 0.54 |
| WA Electoral Commission | 7.82 | 5 | 0.39 |
| Total | 1,253.23 | | 24.90 |
| South Australia | | | |
| Solicitor General | 0.23 | 1 | 0.00 |
| Director of Public Prosecutions | 26.65 | 1 | 0.27 |
| Crown Solicitor’s Office | 9.71 | 1 | 0.10 |
| Forensic science | 25.95 | 5 | 1.30 |
| Legislative and policy services | 8.99 | 1 | 0.09 |
| Office of the Public Advocate | 4.49 | 1 | 0.04 |
| Fines enforcement and recovery unit | 16.72 | 1 | 0.17 |
| State Records (includes registry of births, deaths and marriages) | 6.54 | 20 | 1.31 |
| Justice Technology Services | 0.67 | 2 | 0.01 |
| Courts administration | 765.10 | 1 | 7.65 |
| Electoral Commission of SA | 28.40 | 2 | 0.57 |
| Total | 893.44 | | 11.51 |

| Table A1: Indirect costs of identity crime to state and territory agencies, 2018–19 (continued) | | | |
|--|---------------------|-----------------------------------|--------------------|
| Tasmania | Budget (\$m) | % identity related | Total (\$m) |
| Court services | 29.69 | 1 | 0.30 |
| Births, Deaths and Marriages | 1.67 | 20 | 0.33 |
| Support and compensation for victims of crime | 8.35 | 2 | 0.17 |
| Legal Aid | 16.47 | 2 | 0.33 |
| Elections and referendums | 5.93 | 2 | 0.12 |
| Legal services | 33.29 | 1 | 0.33 |
| Corrections and enforcement | 7.68 | 2 | 0.15 |
| Director of Public Prosecutions | 8.48 | 1 | 0.08 |
| Total | 111.55 | | 1.82 |
| Australian Capital Territory | | | |
| Justice and Community Safety Directorate | 338.19 | 2 | 6.76 |
| Justice services | 69.38 | 2 | 1.39 |
| Policy advice and justice programs | 22.72 | 1 | 0.23 |
| Legal Aid ACT | 15.13 | 2 | 0.30 |
| Access Canberra (Includes registry of births, deaths and marriages) | 107.25 | 20 | 21.45 |
| Director of Public Prosecutions | 16.15 | 1 | 0.16 |
| Protection of rights | 9.63 | 1 | 0.10 |
| Courts and tribunal | 68.19 | 2 | 1.36 |
| Total | 646.63 | | 31.75 |
| Northern Territory | | | |
| NT Electoral Commission | 1.71 | 1 | 0.02 |
| Legal services | 39.01 | 1 | 0.39 |
| Court and tribunal support | 45.42 | 2 | 0.91 |
| Director of Public Prosecutions | 11.98 | 1 | 0.12 |
| Community safety and crime prevention | 116.28 | 2 | 2.33 |
| Registrar General (includes births, deaths and marriages) | 2.25 | 20 | 0.45 |
| Total | 216.65 | | 4.21 |

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