The True Impact of Fraud — A Roundtable of Experts

April 30th-May 1st, 2014
Washington, DC
Conference Proceedings

STANFORD CENTER ON LONGEVITY | FINRA Investor Education FOUNDATION
FINANCIAL FRAUD RESEARCH CENTER

Financial Fraud Research Center
Financial Security Division
Stanford Center on Longevity

fraudresearchcenter.org
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ATTENDEES

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Joshua Bailes – Director, Financial Crime Resource Center, National Center for Victims of Crime

Michaela Beals – Research Assistant, Financial Fraud Research Center, Stanford Center on Longevity

John Breyault – Vice President, Public Policy, National Consumers League

Debbie Deem – Victim Specialist, Federal Bureau of Investigation

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Andrew Tuck, Ph.D. – Partner, Applied Research & Consulting LLC

Mary Twomey – Co-director, National Center on Elder Abuse, UC Irvine

Judy Van Wyk, Ph.D. – Associate Professor, University of Rhode Island

Gerri Walsh – President, FINRA Investor Education Foundation

AGENDA

Day 1: Wednesday, April 30th, 2014

3:00 – 3:45	Welcome & Meeting Objectives Welcome from Gerri Walsh, President, FINRA Investor Education Foundation; and Martha Deevy, Director, Financial Security Division and Financial Fraud Research Center, Stanford Center on Longevity Brief Introductions around the Table
3:45 – 4:05	Presentation–*Consumer Fraud in the United States: The FTC Consumer Surveys* By Keith B. Anderson, Economist, Federal Trade Commission
4:05 – 4:20	Break
4:20 – 4:40	Presentation–*Illuminating the Dark Figure of Financial Fraud* By Judy Van Wyk, Associate Professor, University of Rhode Island
4:40 – 5:00	Presentation– *Predictors and Correlates of Financial Fraud in Older Adults* By Peter Lichtenberg, Director, Institute of Gerontology at Wayne State University
5:00 – 5:30	Panel Q&A with Speakers
5:30	Adjourn

Day 2: Thursday, May 1st, 2014

8:30 – 9:00	Presentation–*Measuring the Impact of Fraud: Financial Fraud Research Center Projects* By Michaela Beals, Research Assistant, Financial Fraud Research Center
9:00 – 9:45	**Discussion Session 1** – Survey-Based Measurement *How can we improve survey-based measures of fraud victimization?*
9:45 – 10:30	**Discussion Session 2** – Organizational/Institutional Data *How can we improve institutional data regarding fraud victimization?*
10:30 – 10:45	Break
10:45 – 11:30	**Discussion Session 3** – Non-Traditional Costs and Vulnerable Populations *What other indirect financial, social, or psychological costs are associated with fraud victimization?* *What populations/characteristics are associated with greater fraud victimization?*
11:30 – 12:15	**Breakout Sessions** – Best Practices Discussion Group 1: Best Practices in Survey Measurement *Discussion Leader – Gary Mottola, FINRA Investor Education Foundation* Group 2: Best Practices in Institutional Data *Discussion Leader – Christine Kieffer, FINRA Investor Education Foundation*
12:30 – 1:30	Lunch Presentation–*Fraud Perspectives and Prevention* By Paul Krenn, Postal Inspector, United States Postal Inspection Service
1:30 – 2:30	**Report Back to Group**
2:30	Meeting Adjourns

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INTRODUCTION

Background

Without accurate and reliable estimates of fraud, it is difficult to understand what works or does not work to protect potential victims from harm. Unfortunately, current estimates of fraud's impact and prevalence vary widely, making it difficult for law enforcement, researchers, and policymakers to appreciate the true scope of the problem.

Complaint data, although increasing over time, still vastly underestimate the scope of the problem due to the large number of victims who do not report to authorities. For example, the most recent Federal Trade Commission (FTC) survey of consumer fraud estimated that 37.8 million incidents of fraud took place in 2011.[1] Yet the FTC Consumer Sentinel Network, the database of consumer complaints, received just over 1 million fraud complaints.[2] Similarly, the Financial Fraud Research Center estimates that $40 to $50 billion is lost to fraud annually, but last year victims reported losing $1.5 billion to fraud, as measured by complaints filed with the Consumer Sentinel Network.[3]

Survey data show variable prevalence estimates as well. Estimates of general past-year fraud victimization in the United States range from 4% [4, 5] to 16.5% [6] of the adult population. This variability is due to a variety of factors, including differences in sample populations in terms of age and geography, definitions of fraud, and question wording.

Measures of fraud rely on the accuracy of individuals' self-reporting and on their willingness to share incidents of victimization. There is some evidence that victims fail to come forward due to a lack of confidence in authorities, a lack of awareness of where to report, embarrassment, guilt, or a combination of these reasons.[7] Successfully addressing these issues is a necessary step in encouraging future reporting behavior.

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[1] Anderson, K. B. (2013). "Consumer Fraud in the United States, 2011: The Third FTC survey." Federal Trade Commission. Washington, DC.

[2] FTC. (2013). "Consumer Sentinel Network Data Book for January - December 2012." Washington, DC.

[3] Ibid.

[4] AARP. (2003). "2003 Consumer Experience Survey: Insights on Consumer Credit Behavior, Fraud and Financial Planning." Washington, DC.

[5] Holtfreter, K., Reisig, M. D., & Pratt, T. C. (2008). "Low Self-control, Routine Activities, and Fraud Victimization." *Criminology*, 46(1), 189–220.

[6] Huff, R., Desilets, C., & Kane, J. (2010). "The 2010 National Public Survey on White Collar Crime." National White Collar Crime Center.

[7] FINRA Investor Education Foundation. (2013). "Financial Fraud and Fraud Susceptibility in the United States."

In addition, most measures of the impact of fraud only consider the direct financial loss associated with the incident. While the direct financial damages are undoubtedly important to assess, we must also take into account the fact that fraud has the potential to precipitate other financial, physical, psychological, and social costs. In addition to the actual amount lost, victims suffer financially in other ways. In one study, 20% of fraud victims experienced personal credit problems and 13% lost time from work due to the incident.[8] Furthermore, victims often report loss of sleep, depression, and marital problems as a result of their victimization.[9] These related costs should not be overlooked.

A Note on Terminology

The terms "incidence" and "prevalence" are often used interchangeably in the fraud literature, but they do have precise (and different) definitions in the epidemiological and medical communities. Prevalence refers to the proportion of the population with a problem (typically a disease or condition) and incidence refers to the number of new cases of the problem in a defined period (often one year). Since fraud victimization is not completely analogous to disease onset and prognosis, the epidemiological definitions do not map precisely. Following convention in the fraud literature, the term prevalence is used in this document, but defined prevalence periods (e.g. past-year, past 5 years) measure new fraud victimization within the designated time period and could therefore be considered incidence rates.

The Conference

The Financial Fraud Research Center, a joint project of the Stanford Center on Longevity and the FINRA Investor Education Foundation, convened a group of expert researchers, practitioners, and policymakers on April 30th – May 1st, 2014 to discuss the true impact and cost of financial fraud. The conference brought together a diverse group of participants to examine multiple aspects of the issue and suggest ways to improve measurement of fraud's impact.

The first day featured several presentations to provide foundational knowledge for the discussions on day two. Presenters shared information about current rates of consumer fraud prevalence, the issues associated with under-reporting, and information about vulnerable populations.

Day two began with a brief presentation of recent Financial Fraud Research Center projects related to fraud prevalence measurement, but was largely discussion-based. The first discussion session focused on improving survey-based measures of fraud prevalence. The second session centered on ways to improve the processes used by agencies when collecting fraud complaints. The third session addressed how to better capture data on vulnerable populations and non-traditional costs in measures of fraud's impact. The group then divided into breakout sessions

[8] Titus, R. M., Heinzelmann, F., & Boyle, J. M. (1995). "Victimization of Persons by Fraud." *Crime & Delinquency*, 41(1), 54–72.

[9] Sechrest et al., 1998 cited in Kerley, K. R., & Copes, H. (2002). "Personal Fraud Victims and their Official Responses to Victimization." *Journal of Police and Criminal Psychology*, 17(1), 19–35.

divided by data source (survey vs. complaint) to brainstorm specific ways to improve data collection, identify potential barriers to implementing these changes, and discuss gaps in current research.

Many themes emerged, including the need for a more unified definition of fraud victimization. This would help to create a common language for researchers and practitioners who approach the topic from diverse perspectives. The group also highlighted the importance of understanding the context and purpose of data collection. Methods and definitions vary based on whether the data are intended to provide information about the quantitative (prevalence) or qualitative (victim experience) scope of the problem.

More discussion, research, and collaboration are necessary to create a definitive list of best practices in this area. Still, the discussion yielded several important recommendations—ranging from awareness to specific action items – that will help improve our current understanding of fraud's impact on individuals and societies alike. We hope our conference will stimulate implementation of some of these recommendations and help to frame further conversations about this important issue.

SETTING THE STAGE: SPEAKER PRESENTATIONS

Day one consisted of several presentations to help set the stage for discussion. Below are summaries of the presentations. Copies of presentation slides are appended to this report.

Consumer Fraud in the United States: The FTC Consumer Surveys

Over the past 10 years, the Federal Trade Commission has sponsored three large-scale surveys of consumer fraud. Keith Anderson, an economist at the Federal Trade Commission, began the day by presenting results from the most recent *Consumer Fraud in the United States* survey. Anderson described several methodology considerations of the survey, including what constitutes "fraud" and how the survey questions are administered. Rather than ask consumers whether they have been defrauded, the survey asks several specific questions that allow the surveyors to categorize and tally what they deem to be fraudulent activities. An estimated 10.8% of US adults (a total of 25.6 million consumers) were victimized by one or more of the surveyed fraud types during 2011. The surveyed frauds fall under the general category of "mass market" and included weight-loss scams, prize promotions, pyramid schemes, and credit repair scams, among others. Anderson noted that the number of victims varied by scam type, and also presented information about the demographic and behavioral characteristics of the victims. This survey found that African Americans, those aged 45 to 54, those willing to take risks, those who recently experienced a negative life event, and those with too much debt had higher rates of victimization.

Illuminating the Dark Figure of Financial Fraud

Next, Judy Van Wyk, an associate professor at the University of Rhode Island, explained the importance of reporting fraud victimization to authorities. She noted that under-reporting is a problem that encourages the perpetration of fraud and makes it impossible to extend help to those who are victimized. She discussed multiple reasons why victims may not report, including lack of awareness of the incident, public apathy, confusion about where to report, lack of confidence in the authorities, lack of time or resources, and embarrassment or shame. Van Wyk offered several potential solutions to improve reporting, including police training, centralized reporting agencies, legislation enforcing disclosure laws, and public awareness campaigns. She also provided a review of the literature concerning the comparison of who reports to authorities versus who doesn't. There are currently mixed findings with respect to the demographic and behavioral characteristics that are related to fraud reporting. She explained that some studies find women, people who are married, and people who are younger are more likely to report their victimization. Studies have conflicting results regarding education: some find that those with less education are more likely to report; others find that those with higher education are more likely to report. To help clarify such issues, Van Wyk highlighted the need for future research to analyze more nuanced relationships among variables.

Predictors and Correlates of Financial Fraud in Older Adults

Peter Lichtenberg, director of the Institute of Gerontology at Wayne State University, concluded day one with a presentation about psychosocial vulnerability and fraud in older adults. He noted that financial exploitation is a growing concern in the field of elder abuse and presented some of his work in this area. In a recent study, Lichtenberg and his colleagues used data from the Health and Retirement Study (HRS) to identify correlates and prospective predictors of financial fraud in older adults (ages 50 plus). They found that the overall prevalence of fraud across the previous five years was 4.5% of the sample. Fraud was significantly more common among respondents who were younger, had more education, reported more depressive symptoms, had less financial satisfaction, and reported less fulfillment of social needs. Many of the variables, including the depression measure, were collected several years prior to the administration of the questionnaire that included the question about fraud victimization. This study is therefore able to offer stronger suggestions about causality than a one-time survey would allow. The strongest finding was the importance of psychological vulnerability: fraud prevalence in those with both the highest depression and the lowest social needs fulfillment was three times higher than the rest of the sample (14% compared to 4%). The question about fraud in the HRS survey did not ask what the fraud experience was, so Lichtenberg explained that he also conducted a local survey to investigate what exactly respondents mean by "fraud." In this survey, he found that 80% of the reported instances of fraud would be categorized as investment fraud, and 20% of cases were lottery fraud. He also described his current work creating a new measure of financial decision-making that can help uncover fraud and other financial exploitation in older adults.

Measuring the Impact of Fraud: Financial Fraud Research Center Projects

Michaela Beals, a research assistant at the Financial Fraud Research Center (FFRC), opened day two with a presentation intended to lay the groundwork for the following discussion sessions. She described two recent FFRC projects that relate to fraud prevalence measurement. First, she provided a summary of the Center's latest white paper, *The Scope of the Problem: An Overview of Fraud Prevalence Measurement.* This paper was intended to reconcile the variability of financial fraud prevalence estimates, to explain why it is so difficult to obtain reliable and valid estimates, and to suggest ways to improve prevalence measurement. The current conference was a direct outgrowth of this paper. Beals then described a survey research project that the FFRC conducted with Applied Research & Consulting. This study assessed whether, and to what extent, modifications to survey design and context affect self-reported rates of individual fraud victimization. Prior evidence from other research domains suggests that the presentation, or context, of a survey (the introduction, the name of the study or surveying group, prior items, the order of questions, etc.) can shape respondents' understanding of their task and their interpretation of individual questions in the survey. In the current study, participants were randomly assigned to one of three different survey contexts (crime, consumer, and control), which were distinguished by their titles, stated survey purpose, and a set of sensitizing questions that were presented before the questions about fraud victimization. Preliminary results show that participants assigned to the crime context reported significantly less fraud victimization than those in either the consumer or the control context. This applied to both consumer fraud and investment fraud. Further, the inhibitory effect of the crime context was stronger for those ages 65 and older and for those who self-identified as having high social status. The effect of the crime context also varied by race; for those who are black, being in the crime context was actually associated with a significant increase in self-reported fraud victimization. While this study does not speak to which context yields more accurate victimization rates or what precise mechanisms are at play, it does illustrate the importance of being aware of potential context effects when designing surveys and interpreting results.

DISCUSSION SESSION #1
SURVEY-BASED MEASUREMENT

When assessing the impact of fraud, a clear place to start is with prevalence—*How much fraud is out there*? Surveys are the primary source for answering this question because they don't rely only on cases reported to the police, which we know represent a small fraction of the total amount of fraud that actually occurs. The first discussion centered on ways to improve survey-based measurement of fraud.

Key Discussion Points:

Definitional Issues

- Due to ambiguity in the nature of fraud and the different intended purposes of data collection, interpretation of prevalence measures must take into account the context of the particular study or organization collecting the data. How did the organization or survey define "fraud"? Why was the data collected?
- Although no single definition of fraud will be suitable for all purposes, a "taxonomy of fraud" that identifies key dimensions and categorizations of fraud would help to create a common language for those who approach fraud from different perspectives.
  - An operationalized fraud taxonomy would also facilitate the inclusion of fraud in national crime statistics measures, like the *National Crime Victimization Survey*. This would allow for direct comparison of the magnitude of fraud to other types of crime.
  - We must be aware that operationally defining fraud also leads to the potential of misclassification.
- It is unclear whether participants should be allowed to define the fraud themselves in survey measures.
  - Some argue that allowing survey participants to define the fraud themselves leads to biased and inaccurate prevalence measures. For this reason, surveys conducted by the Federal Trade Commission do not use the word "fraud." Instead, participants are classified as victims based on their answers to questions about different experiences that the agency considers fraudulent in nature.
  - In contrast, many other surveys of fraud prevalence ask survey participants directly if they were victimized by various instances of fraud. Victims are those who self-identify as having been defrauded.

- One issue that arises if the fraud is identified and defined by the researcher or surveyor is that some people may be classified as fraud victims even though they do not believe they have been victimized.
- Although it is debatable whether or not the individual should be allowed to define victimhood in prevalence measures, experts agree that the subjective experience of victimhood is important when collecting data for victim services or prevention work.

Survey Methodology

- Although not limited to fraud surveys, low response rates continue to be a problem for survey researchers. The issue may be even more pronounced in internet surveys of the general population.
- Using multiple survey methods may be a good practice, but this significantly increases costs.
- The “context” of the survey, which relates to a host of factors including the survey title, the surveying organization, and the order of other questions in the survey, may have an effect on survey respondents.
- Some evidence suggests that the mode of survey administration (internet vs. phone) doesn’t significantly affect the responses of participants. If mode effects do exist, they are likely smaller than definitional issues or context effects.
- A good benchmark for fraud survey research is the “fitness for use” model. This entails balancing the precision of the survey instrument (which translates into cost) with the particular needs of the stakeholders.
- Survey researchers must be aware that they are using the same methods as the fraudsters; namely, reaching out to unknown persons via mail or telephone. This could be problematic for researchers because victim services specialists instruct vulnerable individuals to avoid taking calls or responding to sales pitches from people they don’t know.

Other Variables in Surveys

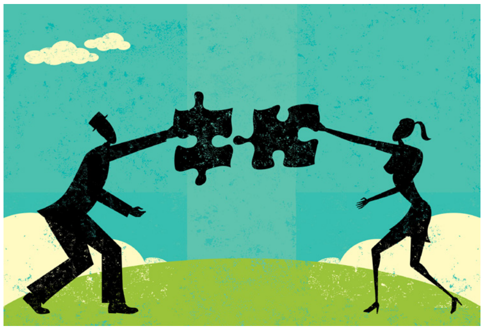
- Fraud victimization surveys that capture demographic and behavioral information about participants can address the relationships between these variables and susceptibility to fraud.
  - Researchers who analyze such data must keep in mind the fact that relationships between variables may not be linear. For example, a U-shaped relationship may exist where fraud susceptibility is high at the extremes of a particular variable.
  - Similarly, researchers should consider interaction effects among variables. For example, it may be the case that combinations of certain factors are more important than the same variables in isolation.
- We must also recognize that basic demographics may not be related to fraud victimization directly, but are instead proxies for some other factor, like exposure.
  - Answers to survey questions about financial literacy and capability (Do you have a savings account? Do you invest?) may be more important than basic demographics.

DISCUSSION SESSION #2
INSTITUTIONAL/ORGANIZATIONAL DATA

Although not intended to be used as prevalence estimates, institutional data can also provide information about the impact of fraud. Complaint data are integral in understanding the victim experience, aiding with prosecution and rule enforcement, and allocating resources for detection, prevention, and victim services. The second discussion session addressed how to encourage victims to report their incidents and how to strengthen the response of official agencies.

Key Discussion Points:

Greater Collaboration & Standardization



- The wide range of activities that could be categorized as fraud, combined with an intricate network of organizations that touch upon some aspect of these activities, makes it difficult for victims to know where to report. Although it may be unrealistic to create one truly universal database of fraud reports, it may be possible to create some sort of reporting tree that directs people to the appropriate reporting agency.
- A standardized set of questions in complaint forms would allow for better data comparison across different agencies.

Encouraging Victims to Report

- Current research analyzing the characteristics of who reports to authorities versus who doesn't report might be hampered by focusing on linear relationships and main effects. Future research should consider more nuanced demographic measures, interaction effects, and relationships that may not be linear.
- If we encourage victims to report their victimization to authorities, we must also make sure that the agencies have the infrastructure to respond appropriately to complaints. If they don't, people will stop reporting.

Consumer Sentinel Network

- To some extent, a centralized database of fraud complaints already exists: the Consumer Sentinel Network (CSN), housed at the Federal Trade Commission, is an online database of complaints filed with the FTC, as well as complaints filed with state law enforcement agencies, federal agencies (e.g. IC3), and non-governmental organizations (e.g. Better Business Bureaus and Green Dot) who choose to contribute information.

- W should be wary of using this database for prevalence measures because the data are influenced by reporting bias. For example, a sudden increase in wire transfer fraud complaints could be the result of a wire transfer company starting to submit data to the sentinel, not a true increase in this type of fraud.

- Police departments submit information to the CSN on a voluntary basis. We need to further encourage police departments to submit their fraud incident reports.
- It also would be helpful for practitioners and researchers if there was a published report of how various agencies use the data in the Consumer Sentinel Network.
  - The report could clarify who has access to this data and how many investigations cited data they pulled from CSN.
  - This could also help advocates direct victims to the appropriate agencies.
- Information gleaned from government agencies and databases like the CSN could help researchers identify new frauds to include in their studies.

Taking Complaints

- When taking complaints, agencies should ask questions about each victim's current financial and emotional state, and be able to offer referrals to victim services.
- Some complaint forms begin with questions that require complainants to categorize the fraudulent incident from a list of supplied fraud types or a set of close-ended questions. These forms often end with a section where complainants can write an open-ended narrative of the incident. It is possible that the initial questions on the form influence how complainants respond in the narrative portion of the form. A potential solution to address this priming effect is to bring narratives to the front of the complaint form.

DISCUSSION SESSION #3
NON-TRADITIONAL COSTS AND VULNERABLE POPULATIONS

Most measures of the impact of fraud consider only the direct financial loss associated with the fraudulent incident. However, early research suggests that victims may suffer other financial, physical, psychological, and social costs. The third discussion session addressed some of these lesser studied impacts. Attendees also discussed which groups of people may be particularly vulnerable to fraud victimization.

Key Discussion Points:

Non-Traditional Costs

- The "cost" of fraud is not limited to the amount of money lost in the fraudulent transaction itself. Other non-traditional costs and impacts may include: over-draft fees, tax costs, premature death, suicide, loss of home, divorce, loss of sleep, and loss of independence.
- There are also vicarious victims affected by the fraud – families suffer too, in both the current and future generations.
- Measuring the impact of fraud victimization would be improved by including questions about non-traditional costs of fraud in complaint forms and in large-scale surveys.
  - For example, an elder abuse researcher conducted a study of Adult Protective Services cases to identify other tangible losses that followed victimization, like subsequent impoverishment or moving from one's home.

Vulnerable Populations

- "Vulnerability" can refer to those who are victimized at particularly high rates compared to the general population, or those who have greater trouble recovering once victimized.
- Researchers and practitioners have identified several populations who may be particularly vulnerable to fraud victimization, including those experiencing the following: depression, cognitive impairment, social isolation, prior fraud victimization, bankruptcy, excessive debt, and/or a discrepancy between financial capacity and perception of capacity.
- Recent immigrants may also be vulnerable.

- Individuals with disabilities or neurocognitive problems are likely at a higher risk for fraud victimization, but these groups of people are under-represented in (or even screened out of) survey research.
  - Future surveys should target these vulnerable populations and further investigate the use of proxy respondents for surveying vulnerable populations.
  - We should note that IRB approval might lengthen this process in an academic setting.
- Similarly, repeat victims may be under-represented in surveys if they follow the advice of victim service professionals to cease responding to inquiries or pitches from unknown persons.

CONCLUSIONS

Several key topics of interest emerged concerning the issue of better understanding and measuring fraud's impact. One overarching theme was that the field of fraud research and prevention as a whole would benefit from a more unified definition of key concepts related to victimization, including the precise meaning of the words: "fraud," "victim," and "reporting." The conference discussions also highlighted the importance of understanding the purpose of data collection. Methods and definitions vary based on whether the data is intended to primarily provide numbers (prevalence and incidence) or information about victim dynamics (victim experience).

Recommendations

While it is premature to offer a set of "best practices" for understanding fraud's impact, attendees identified several recommendations for prevalence measurement, complaint data collection, and victim experience measurement.

Prevalence Measurement Recommendations

- Use survey estimates of prevalence because they are relatively more valid and reliable indicators of the quantitative scope of fraud. Complaint data are useful for prosecution and prevention efforts, but they are generally unsuitable for prevalence measurement due to bias in data collection.
- Define/classify fraud victims based upon responses to experiential questions rather than requiring individuals to self-identify.
- Create a standardized fraud classification system. While no one measure of fraud will satisfy all agendas, there is a need for a good general measure of fraud – something similar to the unemployment rate.
  - The course of action for this general measure includes creating a taxonomy of fraud, creating survey questions that align with the taxonomy dimensions, fielding these questions in a new or existing survey, and broadly disseminating the results.
- Target vulnerable populations and further investigate the use of proxy respondents for those with diminished capacity.

Complaint Data Collection Recommendations

- Encourage reporting to official agencies. While complaint data show reporting bias, large numbers of complaints still speak to fraud's impact and attract attention from the media and policymakers.
  - Work toward greater consistency and collaboration among agencies.
  - Create a set of standard questions that are asked during the complaint process.
  - Encourage police departments to submit their cases to the Consumer Sentinel Network.
- Create a centralized reporting tree for directing complainants to the appropriate agency.
- Include referrals to victim assistance programs in the complaint process.

Measuring Victim Experience Recommendations

- Consider different definitions and experiences of "fraud" when seeking to understand and measure the victim experience.
  - For example, while we may not want to include attempted victimization in the definition of fraud for prevalence measurement purposes, those who have an unclear understanding of exactly what happened to them may still offer valuable insights into the socio-emotional impact of fraud victimization.
- Include questions about the non-traditional costs of fraud victimization in large-scale surveys.

OPEN QUESTIONS

Conference attendees identified several questions that need to be addressed through additional research and discussion.

Research Questions

- What demographic and behavioral factors show nonlinear or interaction effects when we analyze correlates of fraud victimization?
- Similarly, which factors show interaction effects when we compare victims who report to authorities and victims who don't report?
- What is the best method to capture the experience of those with diminished capacity?

Discussion Questions

- What is the validity of prevalence surveys in which respondents self-identify as victims?
- Is there a case for using both self-identification and agency identification of victimhood in surveys?
- How important is a common definition of fraud? Do we need multiple definitions depending on different stakeholder groups?
- What information is essential to collect from complainants? (e.g., whether they have contacted law enforcement before, the amount of the loss, demographics, a narrative of the event)
- What will influence policymakers to focus on fraud-fighting efforts? Will a "bigger number" or more accurate estimate of fraud really lead to greater resources (focus and funds) for detection and prevention?
- What is the best survey instrument for collecting fraud prevalence data? Can an existing survey be used or does a new survey need to be created?
- What is the feasibility of creating a coordinated fraud reporting system?

APPENDIX: CONFERENCE PRESENTATIONS

Consumer Fraud in the United States:
The FTC Surveys

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"The True Impact of Fraud – A Roundtable of Experts"
30 April 2014

The views presented here are those of the author and do not necessarily represent the view of the Federal Trade Commission or any individual Commissioner.

Background

- The Federal Trade Commission has sponsored three surveys of Consumer Fraud – mid-2003, late-2005, and late-2011-early-2012.
- The full report on the most recent survey is available on the FTC's website http://www.ftc.gov/sites/default/files/documents/reports/consumer-fraud-united-states-2011-third-ftc-survey/130419fraudsurvey_0.pdf.

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FTC@100

Initial Issues

- What is a fraud?
  - Any deceptive claim about a product?
  - A bad purchase experience?
  - Pay for something and receive nothing of value
- Do consumers have the same understanding of what is a fraud and what is something else?

3

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How Do the FTC Surveys Approach These Issues?

- Rather than ask consumers whether they have been defrauded, ask about specific experiences that we believe result in consumer's being defrauded
- Have generally focused on "mass market" frauds
- Have not asked about a lot of local frauds
- Have not included a lot of financial frauds

4

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What are the Implications of Taking This Approach?

- Results need to be understood in the context of the specific types of frauds included in the survey.
  - One might get different results if one looked at a different set of "frauds" or if we had defined the frauds differently.
- Comparison with more general approach

5

FTC@100

What Does the 2011 Survey Cover?

- Goals in selecting what frauds to include were:
  - Maintain consistency with the earlier surveys to be able to look at trends
  - Cover new areas that have generated a large number of complaints or been the focus of significant Commission law enforcement actions.
- Added mortgage relief fraud, counterfeit checks, and fraudulent grant offerings.
- Survey included most of the frauds included in the 2005 survey.
- A total of 17 types of fraud were included – 15 specific and 2 more general.

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A Couple Additional Methodological Issues

- As have the earlier surveys, the 2011 survey asked consumers about their experiences in the year prior to the interview.
- Also as have earlier surveys, multiple questions were used to funnel survey participants down to determine whether they had been a victim of each specific fraud.

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Sample Selection – 2011 Survey

- Interviews conducted by calling a stratified random sample of telephone numbers.
- 3,638 completed interviews
- Cell telephones were called in addition to traditional landline numbers.
- Interviews were conducted in both English and Spanish.
- Low response rates

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How Big is the Problem of Consumer Fraud?

- An estimated 10.8 percent of U.S. adults – a total of 25.6 million consumers – were victimized by one or more of the surveyed frauds during 2011
- 37.8 million incidents during 2011 – 15.9 incidents per hundred U.S. adults

9

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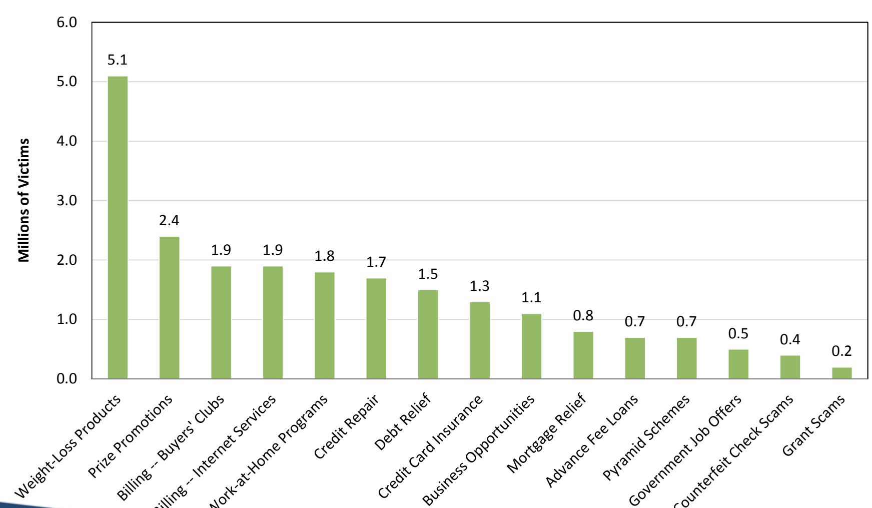
Specific Surveyed Frauds, by Number of Victims



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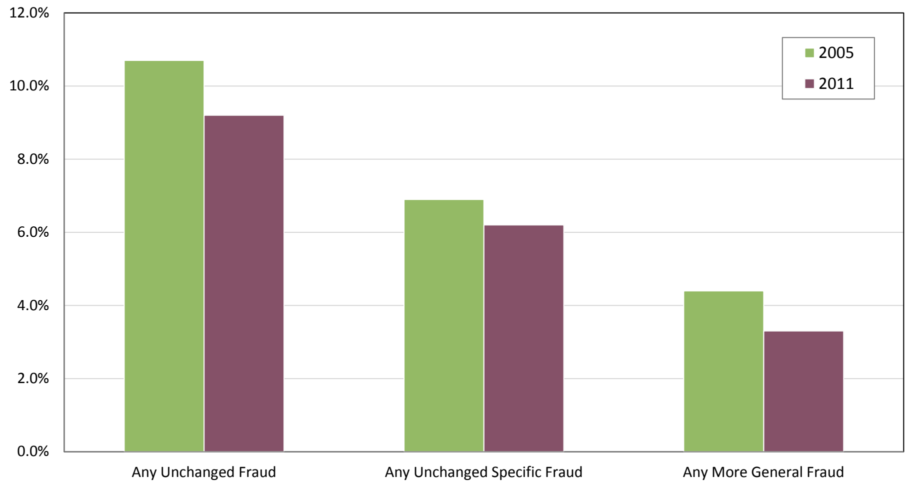
Fraud Prevalence, Unchanged Frauds, Aggregate Figures, 2005 and 2011



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Who Are The Victims?

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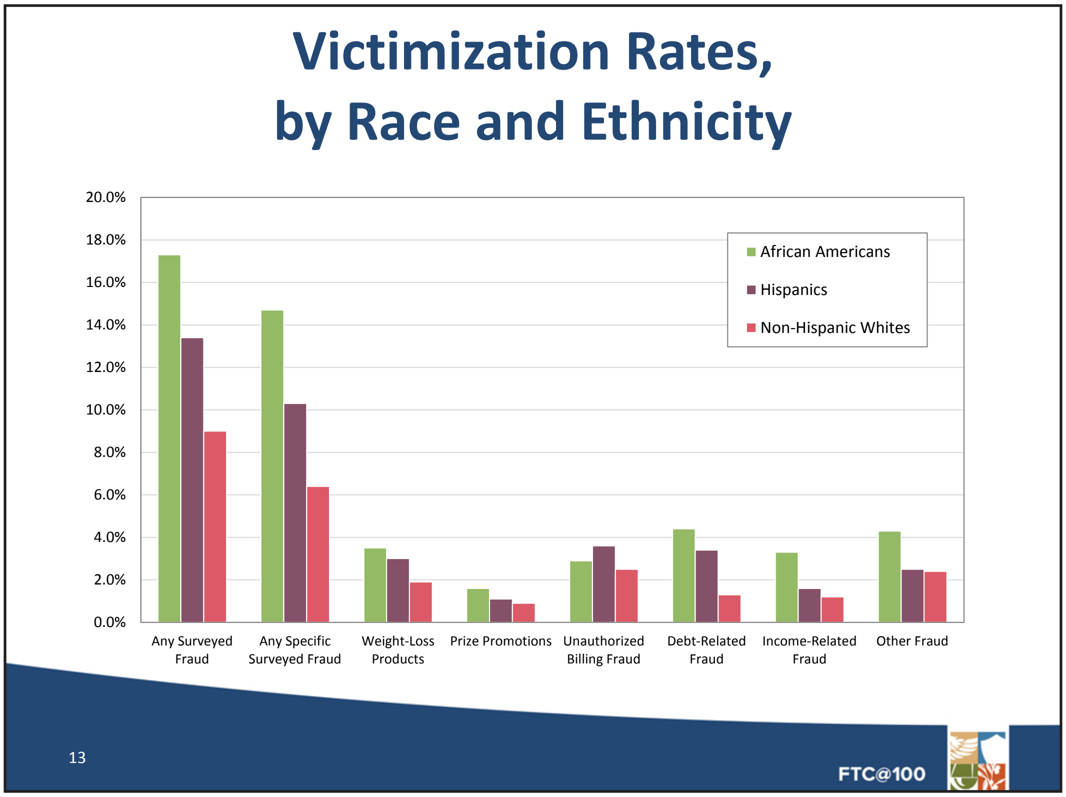

Victimization Rates,
by Race and Ethnicity
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
African Americans
Hispanics
Non-Hispanic Whites
Any Surveyed Fraud
Any Specific Surveyed Fraud
Weight-Loss Products
Prize Promotions
Unauthorized Billing Fraud
Debt-Related Fraud
Income-Related Fraud
Other Fraud
13
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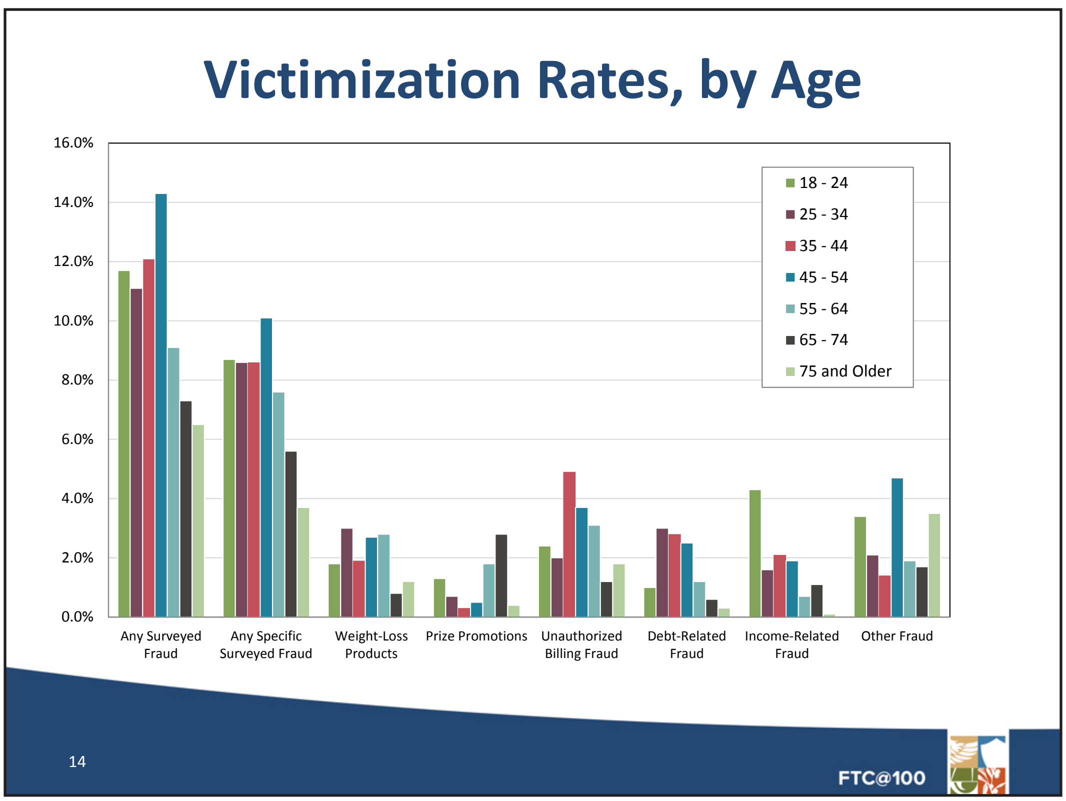
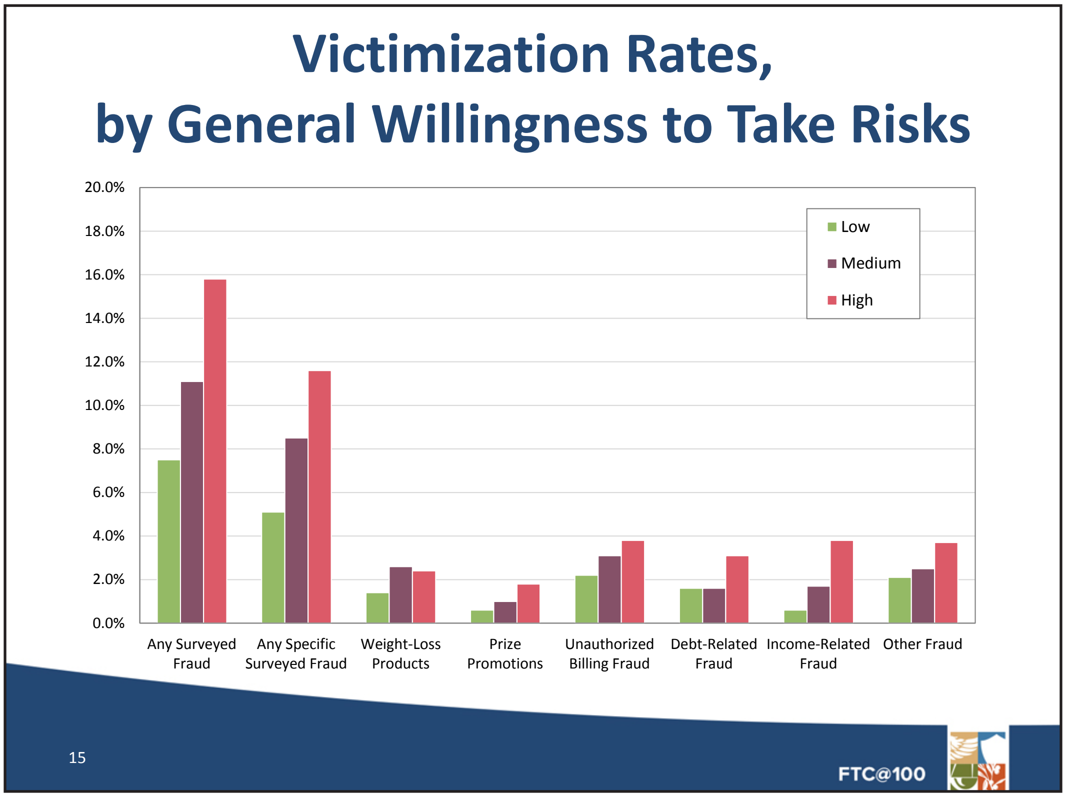
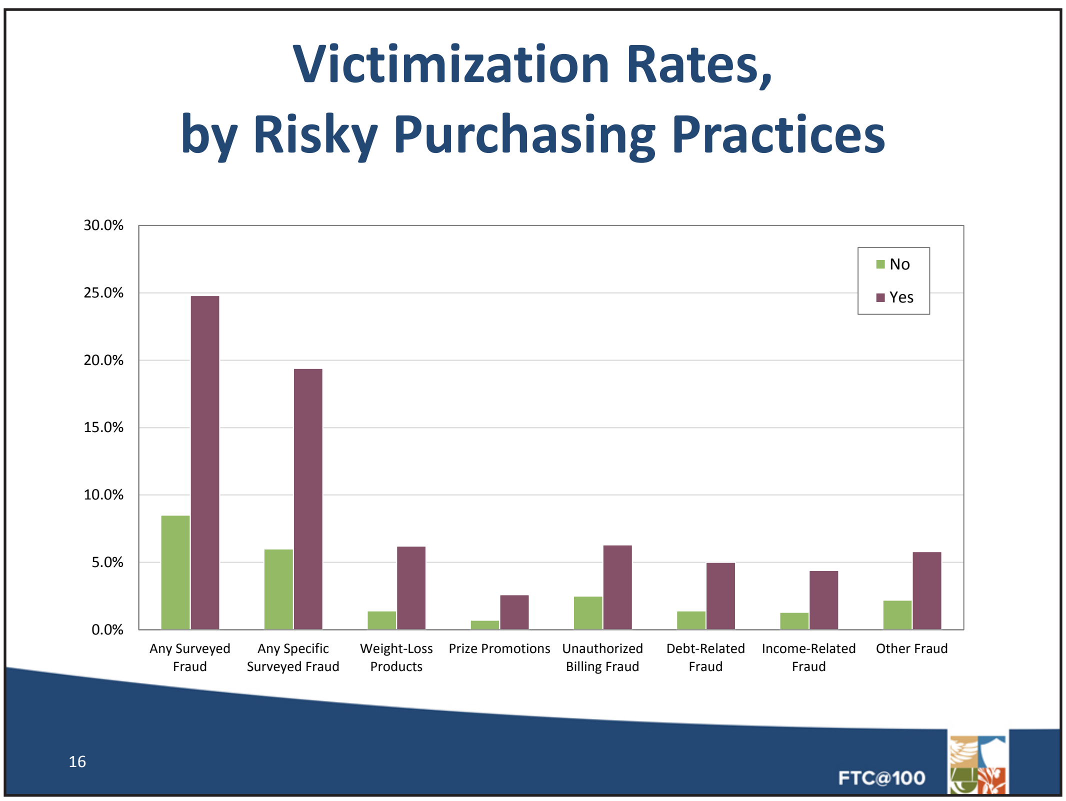
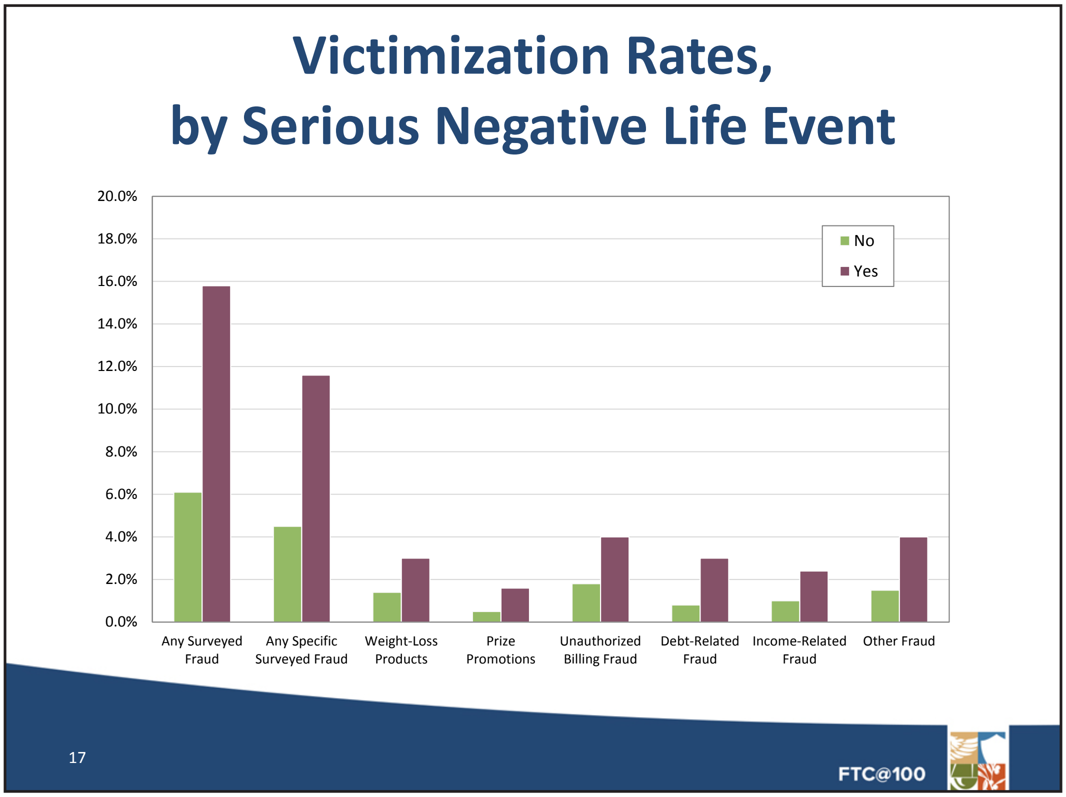
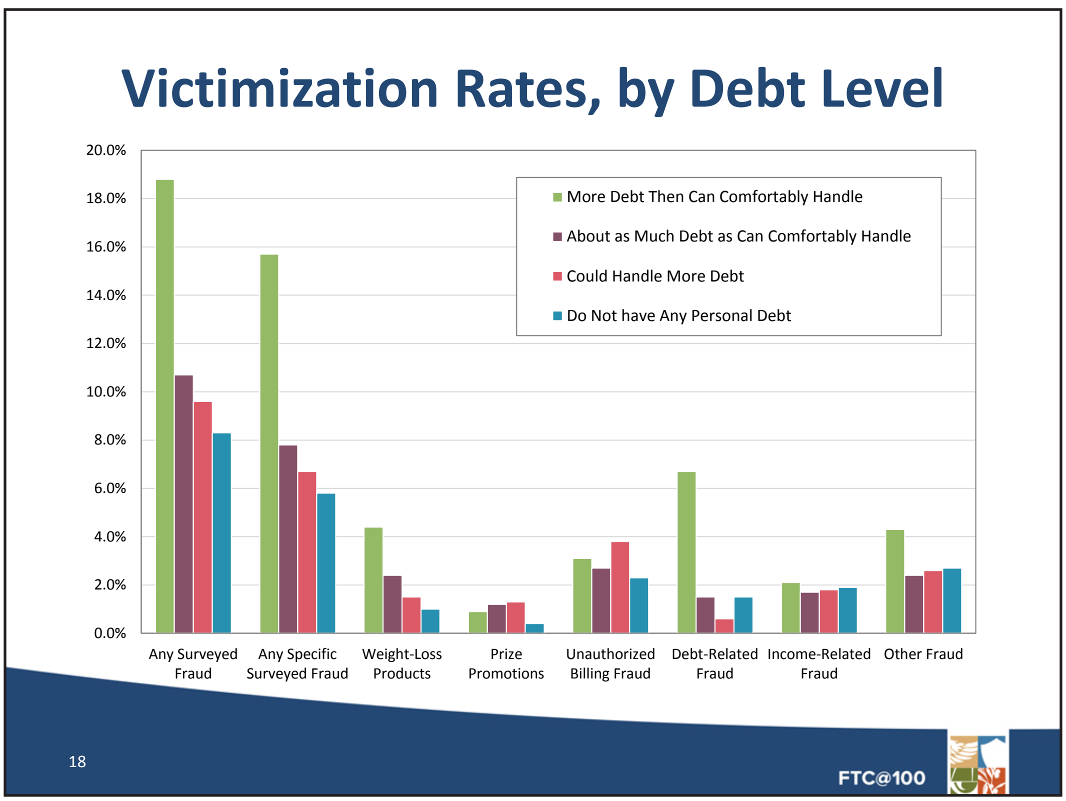


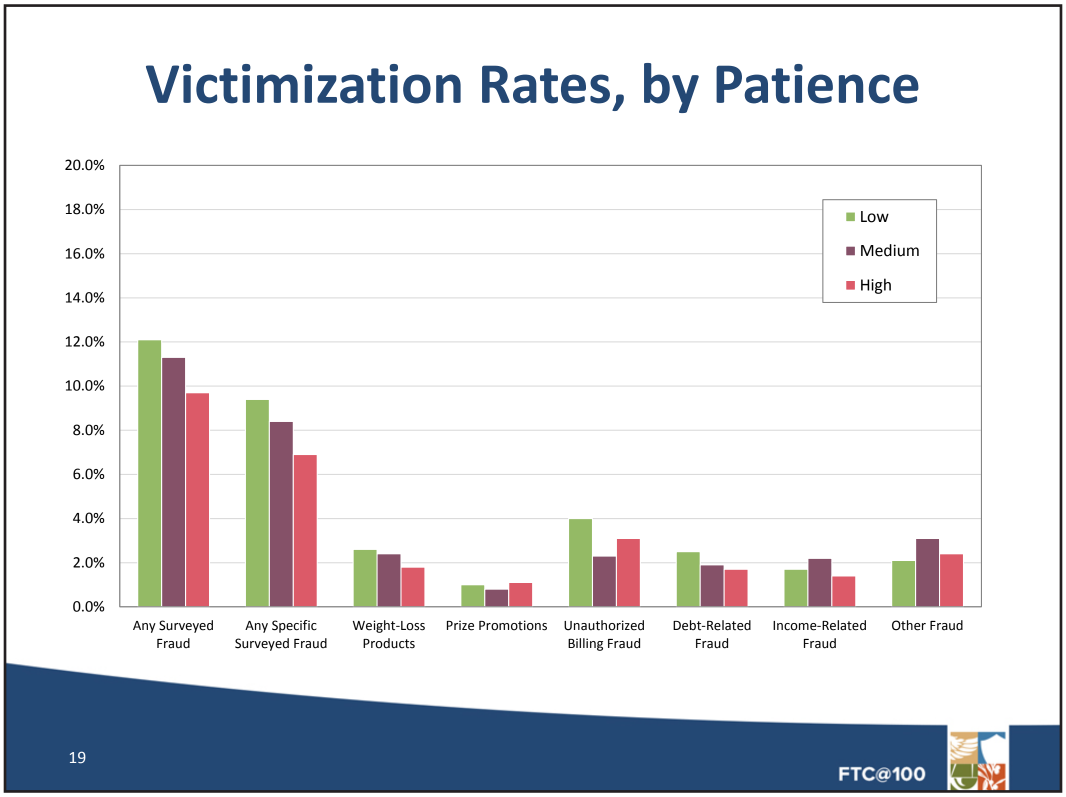
Victimization Rates, by Age
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
18 - 24
25 - 34
35 - 44
45 - 54
55 - 64
65 - 74
75 and Older
Any Surveyed Fraud
Any Specific Surveyed Fraud
Weight-Loss Products
Prize Promotions
Unauthorized Billing Fraud
Debt-Related Fraud
Income-Related Fraud
Other Fraud
14
FTC@100

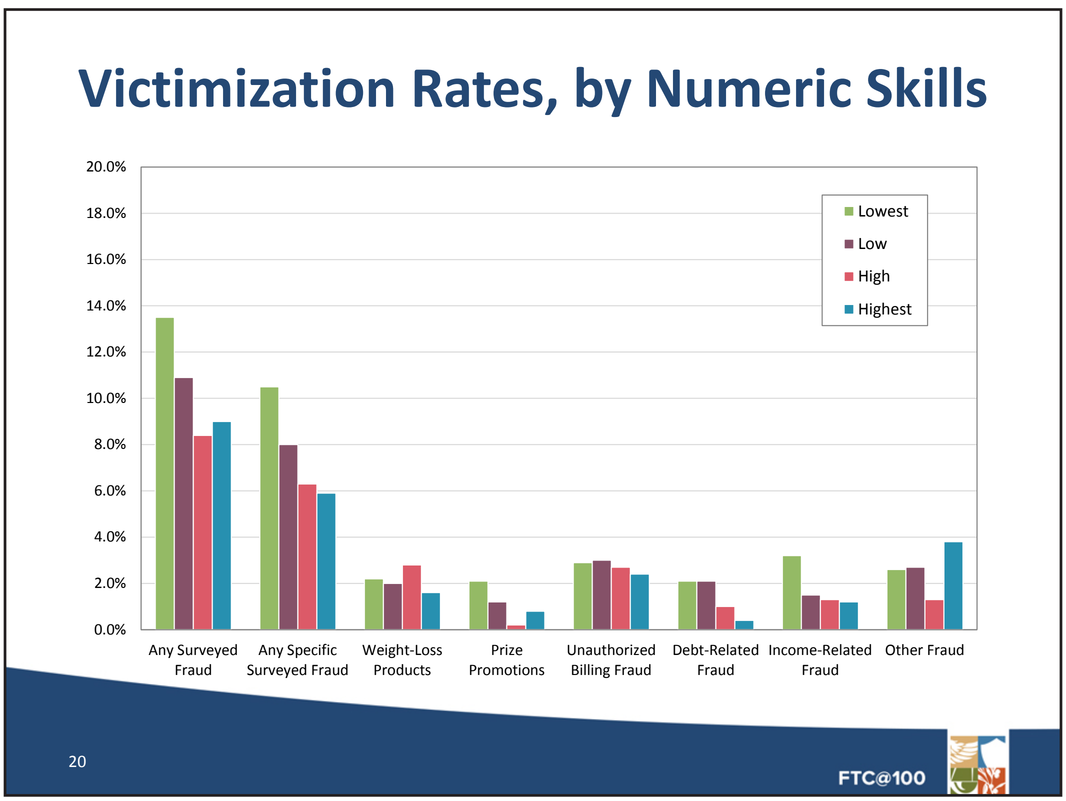

Victimization Rates,
by General Willingness to Take Risks
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Low
Medium
High
Any Surveyed Fraud
Any Specific Surveyed Fraud
Weight-Loss Products
Prize Promotions
Unauthorized Billing Fraud
Debt-Related Fraud
Income-Related Fraud
Other Fraud
15
FTC@100


Victimization Rates,
by Risky Purchasing Practices
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
No
Yes
Any Surveyed Fraud
Any Specific Surveyed Fraud
Weight-Loss Products
Prize Promotions
Unauthorized Billing Fraud
Debt-Related Fraud
Income-Related Fraud
Other Fraud
16
FTC@100


Victimization Rates,
by Serious Negative Life Event
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
No
Yes
Any Surveyed Fraud
Any Specific Surveyed Fraud
Weight-Loss Products
Prize Promotions
Unauthorized Billing Fraud
Debt-Related Fraud
Income-Related Fraud
Other Fraud
17
FTC@100


Victimization Rates, by Debt Level
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
More Debt Then Can Comfortably Handle
About as Much Debt as Can Comfortably Handle
Could Handle More Debt
Do Not have Any Personal Debt
Any Surveyed Fraud
Any Specific Surveyed Fraud
Weight-Loss Products
Prize Promotions
Unauthorized Billing Fraud
Debt-Related Fraud
Income-Related Fraud
Other Fraud
18
FTC@100


Victimization Rates, by Patience
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Low
Medium
High
Any Surveyed Fraud
Any Specific Surveyed Fraud
Weight-Loss Products
Prize Promotions
Unauthorized Billing Fraud
Debt-Related Fraud
Income-Related Fraud
Other Fraud
19
FTC@100


Victimization Rates, by Numeric Skills
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Lowest
Low
High
Highest
Any Surveyed Fraud
Any Specific Surveyed Fraud
Weight-Loss Products
Prize Promotions
Unauthorized Billing Fraud
Debt-Related Fraud
Income-Related Fraud
Other Fraud
20
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How Did People Become Victims?

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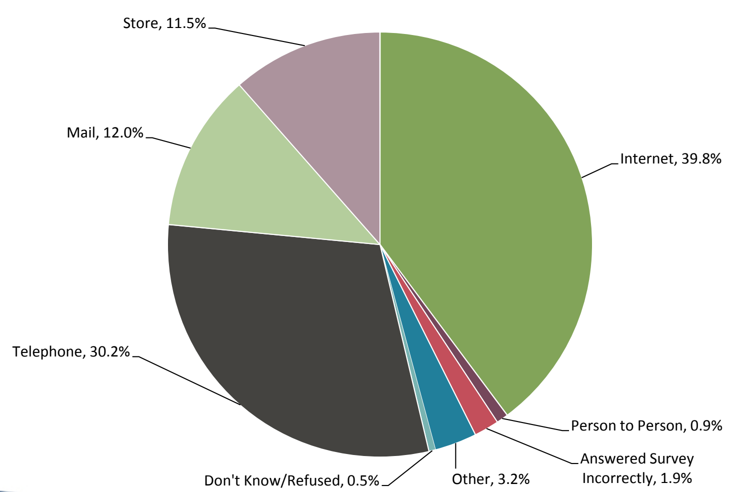
How Fraudulent Goods and Services Were Purchased



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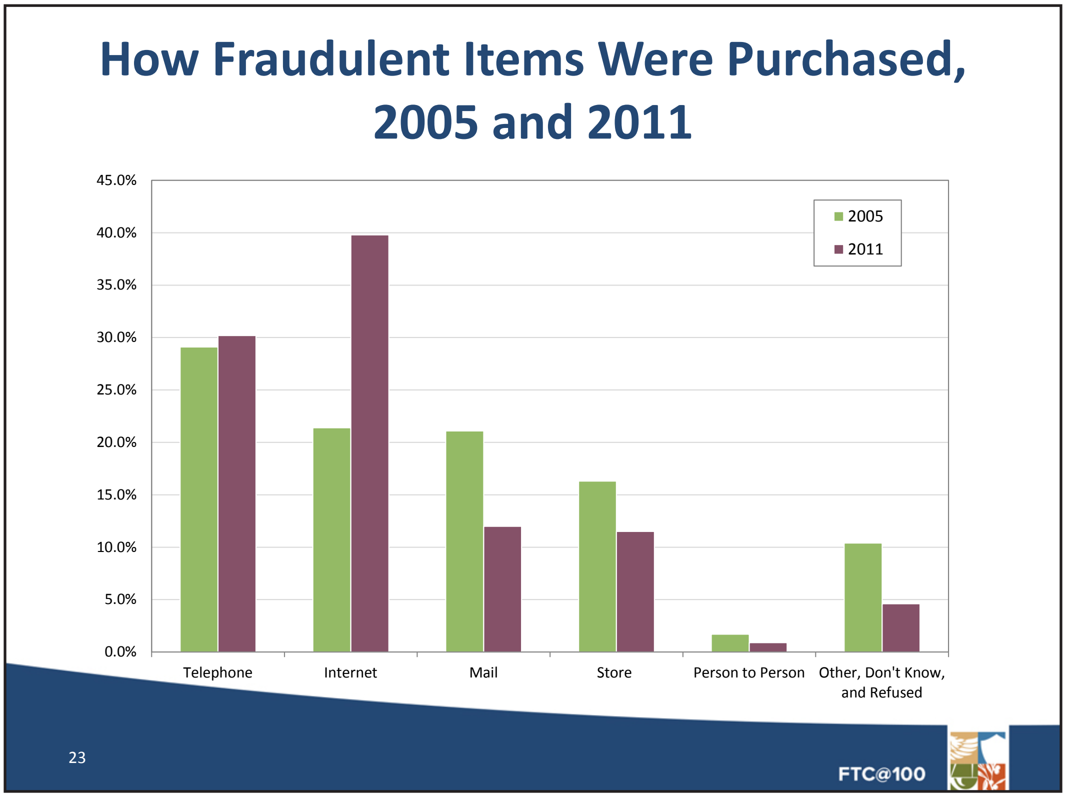
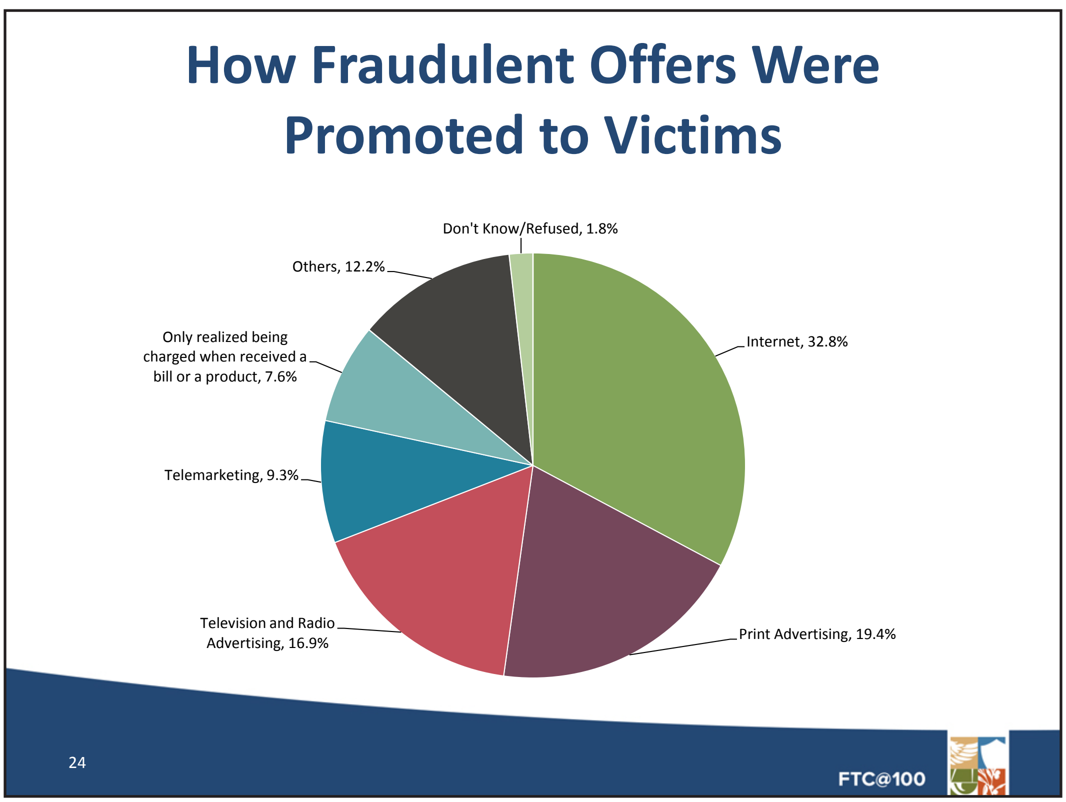
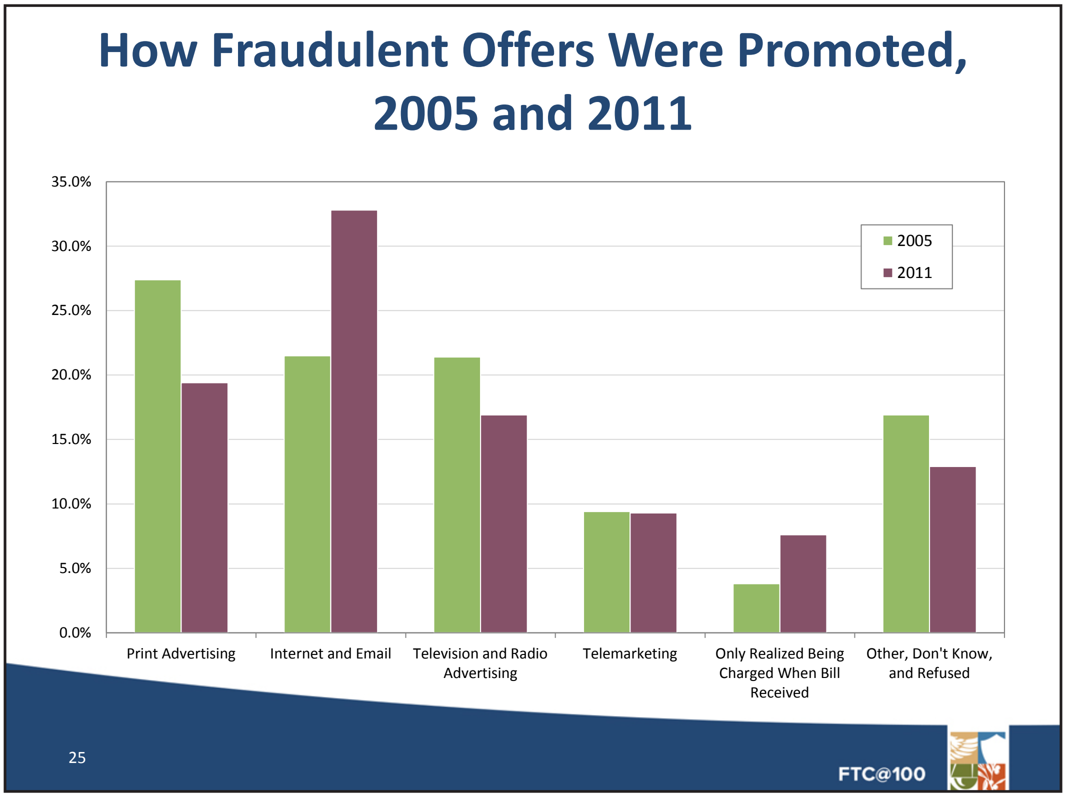
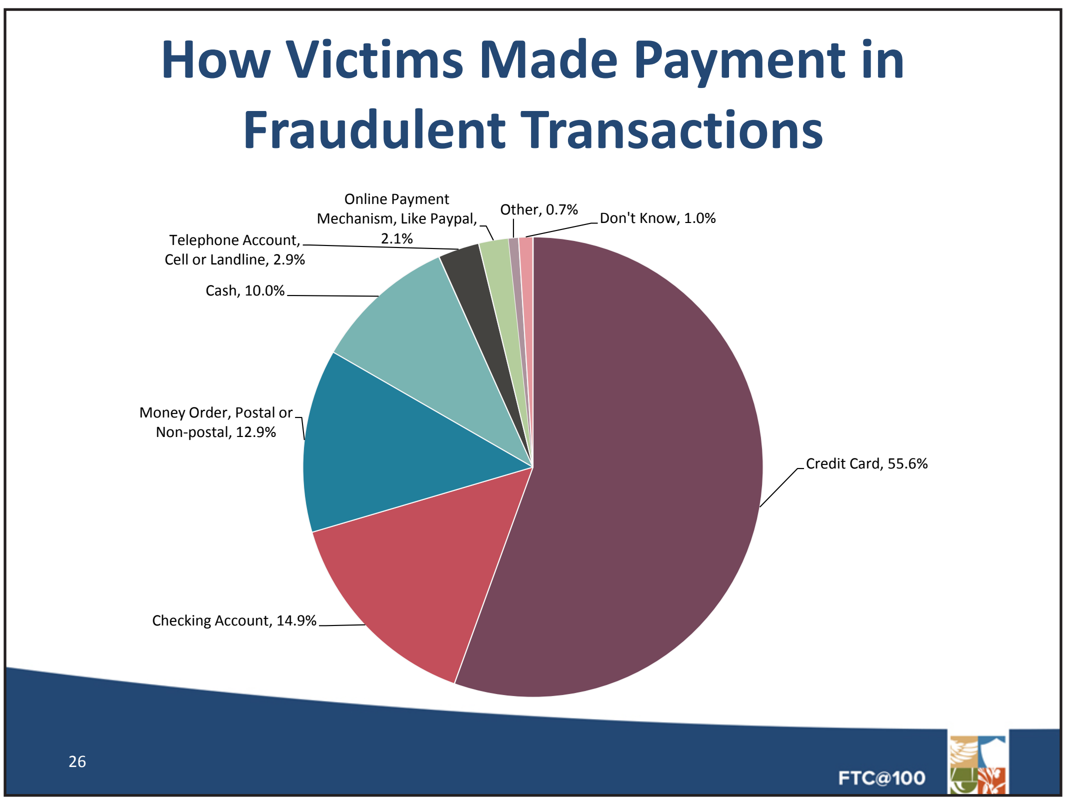

How Fraudulent Items Were Purchased, 2005 and 2011
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
2005
2011
Telephone
Internet
Mail
Store
Person to Person
Other, Don't Know, and Refused
23
FTC@100


How Fraudulent Offers Were Promoted to Victims
Don't Know/Refused, 1.8%
Others, 12.2%
Internet, 32.8%
Only realized being charged when received a bill or a product, 7.6%
Telemarketing, 9.3%
Television and Radio Advertising, 16.9%
Print Advertising, 19.4%
24
FTC@100


How Fraudulent Offers Were Promoted, 2005 and 2011
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
2005
2011
Print Advertising
Internet and Email
Television and Radio Advertising
Telemarketing
Only Realized Being Charged When Bill Received
Other, Don't Know, and Refused
25
FTC@100


How Victims Made Payment in Fraudulent Transactions
Online Payment Mechanism, Like Paypal, 2.1%
Other, 0.7%
Don't Know, 1.0%
Telephone Account, Cell or Landline, 2.9%
Cash, 10.0%
Money Order, Postal or Non-postal, 12.9%
Credit Card, 55.6%
Checking Account, 14.9%
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ILLUMINATING THE DARK FIGURE OF FINANCIAL FRAUD

Judy A. Van Wyk, Ph.D.
University of Rhode Island

1

Highlights

- Why is it important?
- What is "reporting?"
- What percent of victims report?
- Who reports it?
- Who doesn't report it?
- How can we improve reporting?
- How can we improve research?

2

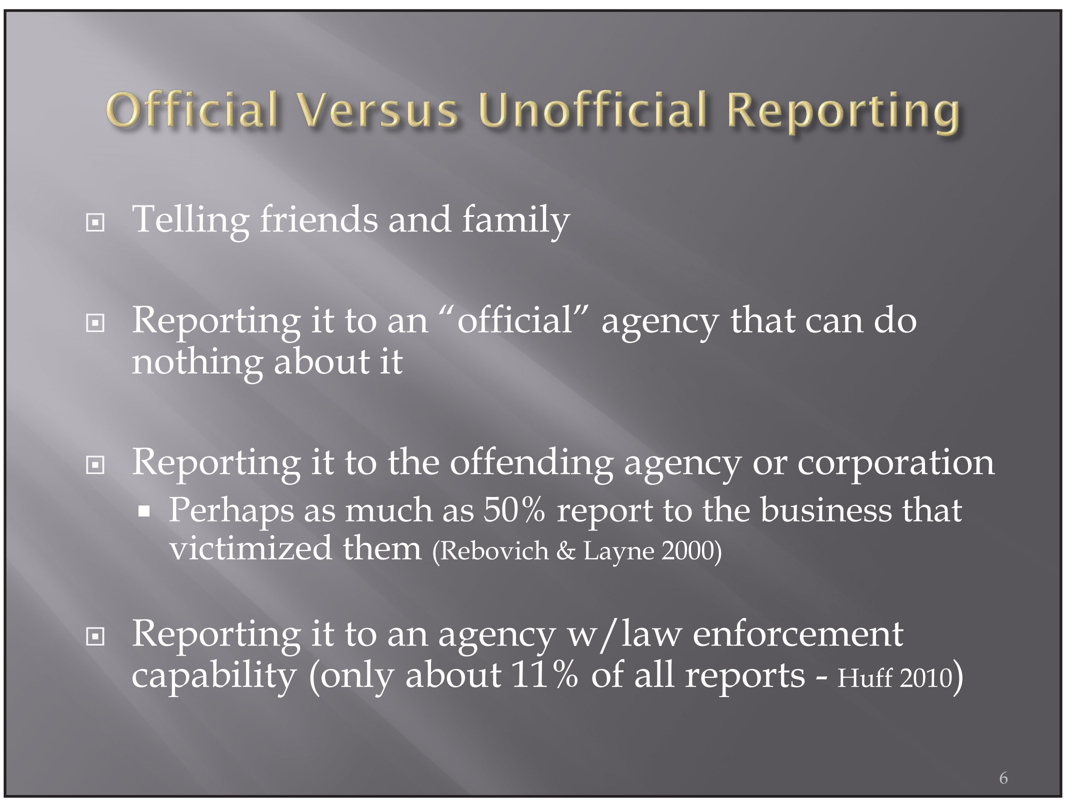
Why is reporting financial fraud important?

3

- Under-reporting overall encourages offending.
- Under-reporting from certain groups makes it impossible to extend help to these groups.
- Under-reporting creates funding shortages for institutions/agencies that need it to locate and help more victims.

4


What is meant by "reporting?"
US DEPARTMENT OF HEALTH AND HUMAN SERVICES
INTERNET CRIME COMPLAINT CENTER (IC3)
STATE POLICE
AMERICAN ASSOCIATION OF RETIRED PERSONS (AARP)
EXPERIAN
USA.GOV
EQUIFAX
FINANCIAL FRAUD INFORCEMENT TASK FORCE
UNIFORM CRIME REPORTS
CONSUMER FINANCE PROTECTION BUREAU (CFPB)
FEDERAL BUREAU OF INVESTIGATION (FBI)
FEDERAL TRADE COMMISSION (FTC)
OFFICE OF INSPECTOR GENERAL (OIG)
US DEPARTMENT OF JUSTICE
5


Official Versus Unofficial Reporting
Telling friends and family
Reporting it to an "official" agency that can do nothing about it
Reporting it to the offending agency or corporation
Perhaps as much as 50% report to the business that victimized them (Rebovich & Layne 2000)
Reporting it to an agency w/law enforcement capability (only about 11% of all reports - Huff 2010)
6

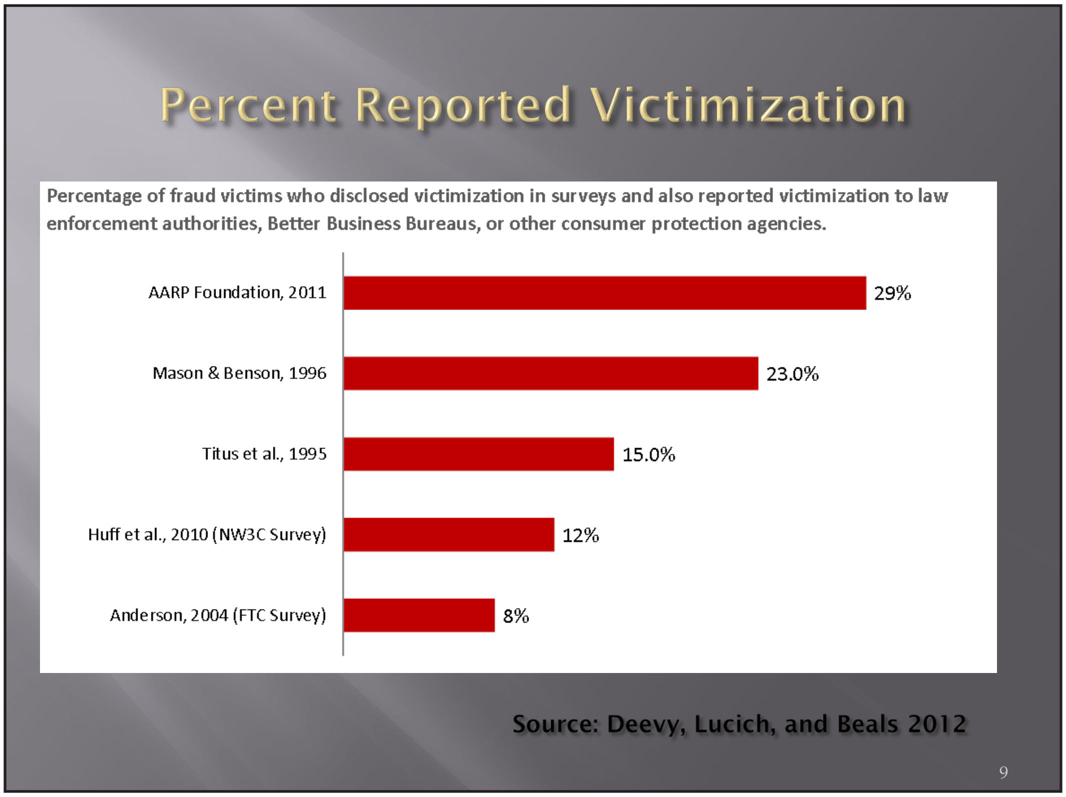
Different Conditions of Reporting

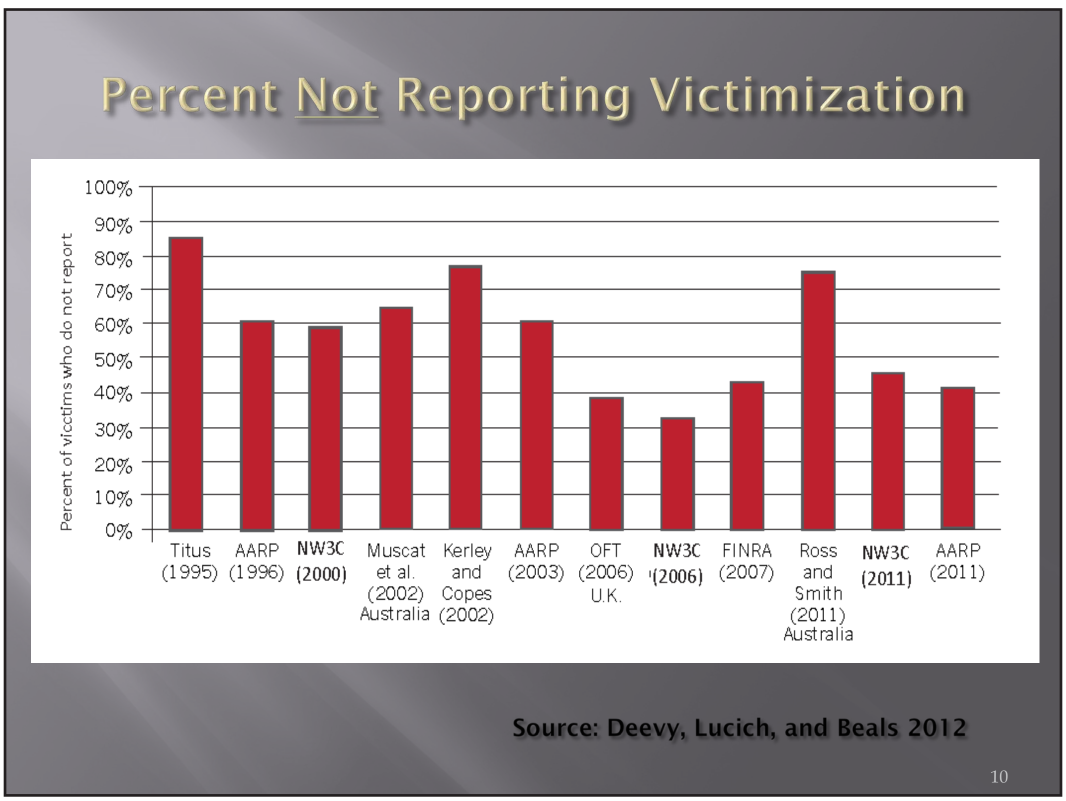
- Reporting vs. Non-Reporting
- Admit vs. Non-Admit: Some people are not aware that they have been victimized by a crime; however, some people know but just don't want to admit it either to authorities or to researchers.
  - One AARP study found that under-admitting increased w/age.
- Successful vs. Unsuccessful Attempts: Studies that do make distinctions between successful frauds and attempts find that correlates for reporting each differ.

7

What percent of victims report?

8


Percent Reported Victimization
Percentage of fraud victims who disclosed victimization in surveys and also reported victimization to law enforcement authorities, Better Business Bureaus, or other consumer protection agencies.
AARP Foundation, 2011
29%
Mason & Benson, 1996
23.0%
Titus et al., 1995
15.0%
Huff et al., 2010 (NW3C Survey)
12%
Anderson, 2004 (FTC Survey)
8%
Source: Deevy, Lucich, and Beals 2012
9


Percent Not Reporting Victimization
Percent of vicctims who do not report
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Titus (1995)
AARP (1996)
NW3C (2000)
Muscat et al. (2002) Australia
Kerley and Copes (2002)
AARP (2003)
OFT (2006) U.K.
NW3C (2006)
FINRA (2007)
Ross and Smith (2011) Australia
NW3C (2011)
AARP (2011)
Source: Deevy, Lucich, and Beals 2012
10

Variation in Studies

- How we define fraud, reporting and victimization matters.
- What types of frauds we include matters.
- Who we ask matters – regional differences; global differences

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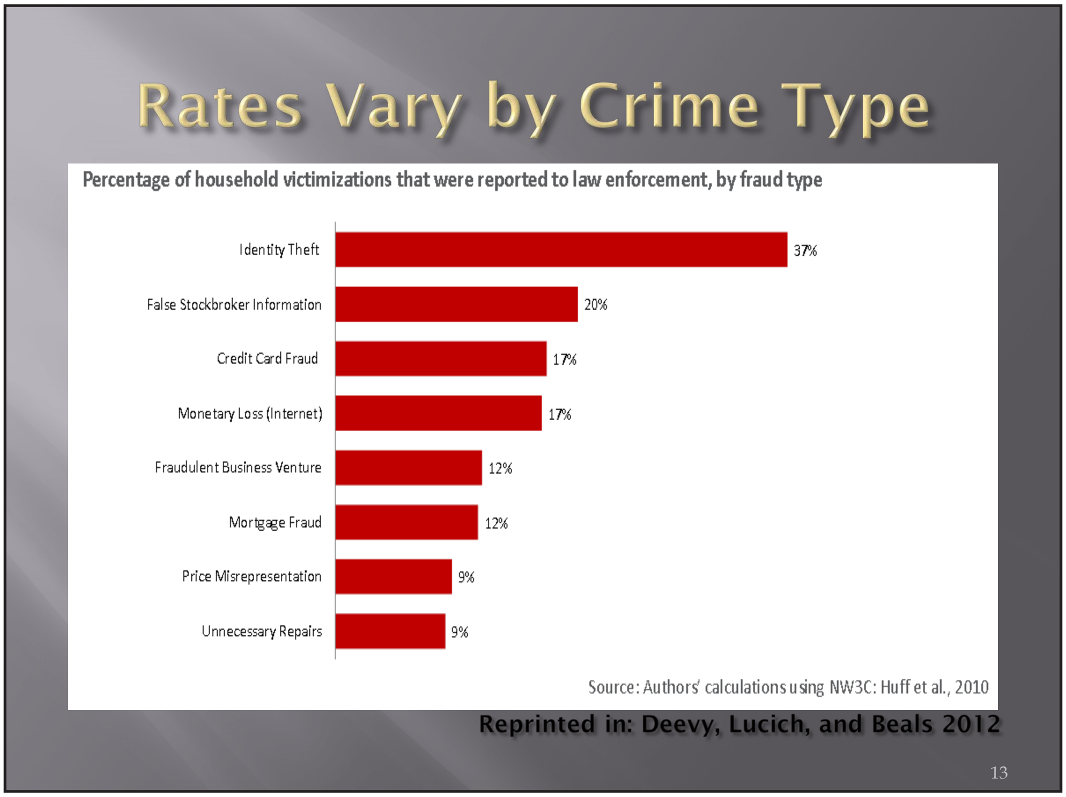
- When we ask matters
  - ease of reporting via the Internet (Deevy et al. 2012), or overall population size increases.
- Changes in the actual prevalence of frauds matters
- Overall rates of reporting versus reporting by fraud type matters

12


Rates Vary by Crime Type
Percentage of household victimizations that were reported to law enforcement, by fraud type
Identity Theft 37%
False Stockbroker Information 20%
Credit Card Fraud 17%
Monetary Loss (Internet) 17%
Fraudulent Business Venture 12%
Mortgage Fraud 12%
Price Misrepresentation 9%
Unnecessary Repairs 9%
Source: Authors' calculations using NW3C: Huff et al., 2010
Reprinted in: Deevy, Lucich, and Beals 2012
13


Who reports financial frauds?
14

Differences are Tricky

- Just as reporting fraud varies by offence type, it is reasonable to assume that correlates of reporting may also vary by offence type.
  - So we may find that the type of person who reports credit card fraud for example may differ from the type that reports identity theft.
    - Blum (1972) found that victims of consumer fraud were least likely to report, while victims of confidence games were most likely to report. Rebovich & Layne (2000) have also found some evidence of differences, as well as Schoepfer and Piquero (2009).

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Demographics are even trickier!

- Marital Status – married people are more likely to report, which may be due to strength in numbers and encouragement from others to report (Mason & Benson 1996). Some research finds that while social support encourages reporting, social isolation is not prohibitive.
  - But what about unmarried partners?
- Race – no support for racial differences in reporting, but racial effects may be confounded with SES
- Gender – women may be more likely to report (Blum 1972, FTC studies)

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Age

- We find the greatest consistency in reporting behavior by age.
  - Younger people are more likely to report (Titus et al. 1995, Shadel & Pak 2011).
    - Younger people could be more familiar with where to report it.
    - Could be that old age ushers in more important things about which to worry.
- Older people may just be more likely to report successful frauds, but not attempts (Copes et al. 2001).
- Age may not have a linear effect on reporting. Most studies measure age by categories and test only for linear effects. They also tend to ignore interaction effects with age and other factors. So perhaps for example married women may be more likely to report than single women altogether.

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- SES – some studies find that people with lower incomes are more likely to report
- Loss – there is limited support that money lost may be a factor, but an income-to-loss ratio is probably more important than money lost.
- Religiosity – People who are more religious may have a stricter sense of morality and may be more likely to report

18

- Education
  - There is some evidence that people with less formal education are more likely to report (Blum 1972, Jesilow, Kempner & Chiao 1992)
  - And some research finds that people with higher education report
  - One study found that people with some college or a Bachelor degree were least likely to report (Copes et al. 2001), but Schoepfer and Piquero (2009) found those groups were *most* likely to report
  - As with age, the effects of education on reporting behavior may not be linear, and they may interact with other characteristics to increase fraud reporting.

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Why don't they report it?

20

Public Perception

- General acceptance and expectations for fraud
- The Wolf Effect - admiration
- Making victimization disappear
  - Street crime happens *to you.*
  - But we *engage in* fraud.
- Blame the victims
- The victim *IS* criminal (Levi et al. 2007 actually do find similarities)

21

- Apathy – you can't fight the man
- Fair market capitalism – fraud is part of the financial game we play – research on fraud offenders finds that they use the same good market strategies as legitimate business.
- No big deal - The general public regards fraud as too trivial, which could be due to over-emphasis on big frauds. People start to think that what happened to them doesn't compare so it might not be fraud.

22

Am I a Victim?

- Individuals are unaware that they are victims
  - Non-violent crime
- They don't know what has happened is called fraud so even if they know how to report frauds they don't (Shadel and Pak 2007)
- Might not know who the actual offender is (Smith 2008)

23

- Don't know where or to whom to report the event
- Report it to a non-official group
- Reporting is time consuming and expensive.
  - People may not report in efforts to ease strain
- Don't know if it was intentional – could have been a mistake and then whose mistake was it?

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Psychological Issues

- Victim stigma
- Shame and embarrassment (Ennis 1967, Office of Fair Trade 2006, Ross and Smith 2011, FINRA Investor Education Foundation 2013). FINRA found that 27% of victims cited this reason
- People who take risks may be more accustomed to loss and therefore more complacent with it

25

Official Non-Response

- Nothing will come of it.
- Victims rarely get restitution (Levi 2000)
- Nearly 70% were not satisfied w/how authorities handled reports (Shichor et al. 2000)
- The "double-standard issue" - White collar offenders are seen as non-criminals (Walsh & Schram 1980) yet their victims are seen as criminal

26

- Discouraged by police to report
- Lack of confidence or trust in the police (Ross and Smith 2011)
- Police are ill-equipped to handle these kinds of calls
- Not enough evidence against offender to report (Ross and Smith 2011)

27

Structural Issues

- Social and economic changes in society
- Less money to spend on legal fees
- People working more hours – no time
- Publicized cases
- Demographic changes in the population
  - Changes in the age distribution
  - Changes in rates of marriage, education, and employment

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What can be done to improve reporting?

29

- Police/precinct/dispatch training so that victims are encouraged to officially report and instructed how to do it when they call the police
- Centralized reporting agencies that share information
- Legislation that requires companies to disclose reports and enforcement of those laws that already exist.
- Public awareness campaigns identifying what fraud is and who victims are, also how to report it. One report found that as much as 40% of victims have no idea who to report it to.

30

- Whistle-blowing protection (Smith 2008)
- Contracts (Vaughan & Carlo 1975)
- Public accountability for offenders
  - Use criminological theory as a guide
    - Techniques of neutralization
    - Strain
    - Shaming and reintegration

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What can be done to improve research?

32

- Create and use common definitions of concepts - fraud, victims, reporting….
- Compare reporters to non-reporters for the same type of fraud or (as Deevy et al. 2012 explain) we may just end up identifying the typical type of person who deals in a certain market rather than identifying true differences in reporting behavior.
- Pay attention to cohort effects. It may be that there are trends among different cohorts that may be due to structural effects.

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- Use theory – if victims and offenders *are* similar then we should explore the use of offender theories to explain victimization and reporting.
- Interaction effects have really been ignored in this body of research. For example, we may find that 60 year olds who regularly use the Internet may be more likely to report than any other age group that regularly uses the internet
  - Interaction effects between the victim and offender characteristics too (Shover et al. 2003)

34

- Measure all types of victim experiences – admitting & reporting, official & unofficial reporting, attempts & successful victimizations
- Use more detailed demographic measures to assess non-linear correlations – don't group ages together or group education by years in college. Perhaps the type of college experience makes a difference.
- Include qualitative methods – interview victims

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Thank you.

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Predictors and Correlates of Financial Fraud in Older Adults

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The Growing Problem of Financial Exploitation of Older Adults

- Karen Roberto (Va Tech) & Pam Teaster (UK)
- Newsfeeds about fraud
- 2008 v 2010
- 2010: $2.9 Billion estimate—12% increase from 2008
- Fraud committed by strangers were 51% of articles

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National surveys of Financial Exploitation

- 2nd only to neglect in most common form of abuse
- Acierno et al 2010: 5.2% family members commit exploitation in previous year.
- Poor health and ADL difficulties correlated with report of exploitation

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Financial Exploitation surveys

- Lauman 3.5% sample reported financial exploitation in past year
- More young old, Blacks reported and fewer Latinos than NHW
- Beach et al. 3.5% in past 6 mos; with 2/3:signing documents not understood
- Depression and ADLs correlates

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Financial Exploitation

- Conrad et al. *TG 2010, 50, 758-773*

Seminal work defining Financial Exploitation: 6 clusters

(1) Theft and scams
(2) Financial victimization
(3) Financial entitlement
(4) Coercion
(5) Signs of possible financial exploitation
(6) Money-management difficulties

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Overview of our Research: Lichtenberg et al. (2013) Is psychological vulnerability related to fraud in older adults: *Clinical Gerontologist, 36, 132-146.*

- Focus on fraud experiences in older adults
- Identify correlates and prospective predictors
- Estimate prevalence from National Data Set

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Focus on Scams

- Question 1: *Have you been robbed or burglarized within the past 5 years*? (asked so as to eliminate theft)—yes/no
- Question 2: *Have you been the victim of financial fraud in the past 5 years*? (scams)– yes/no
- 2002 HRS and 2008 Psychosocial Leave Behind Questionnaire (5 year look back)
- N=4440 respondents; 4.5% prevalence fraud

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Results of t-tests and chi-square tests of independence comparing primary variables of interest between respondents without fraud history (group 1)

Prospective data on HRS variables in 2002 and fraud in 2008

Variable	Mean [SD] or (%) No Fraud	Fraud	t or (χ2)	Cohen's D or (Cramer's V)
Age	71.73 [8.56]	70.14 [8.16]	2.58*	0.19
Gender‡ (% female)	(62.0%)	(59.0%)	(0.73)	(0.01)
Minority Status ‡‡ (% minority)	(14.5%)	(15.5%)	(0.15)	(0.01)
Education	12.67 [2.94]	13.19 [2.64]	-2.41*	0.18
Marital Status‡ ‡‡ (% partnered)	(29.4%)	(29.0%)	(.02)	(0.00)
2002 CES-D	1.29 [1.84]	1.64 [2.11]	-2.25*	0.18
2002 ADS	.17 [.59]	.21 [.64]	-0.81	0.06
2002 IADS	.05 [.26]	.05 [.24]	0.04	0.00
2002 Self-reported Health	2.61 [1.04]	2.64 [1.04]	-0.35	0.03
2002 Income	$12,927 [$31,728]	$13,768 [$23,816]	-0.37	0.03

Younger old, more educated, more depressed
Small effect sizes

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Psychological Vulnerability

- 14% of sample who reported high rates of depression and low rates of social status fulfillment reported fraud v. 4% of the rest of the sample.

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What is fraud Question measuring?

- HRS did not ask what fraud experience was
- Local survey did—501 African American older adults in Detroit area—part of our research registry: *Have you been the victim of financial fraud in the past one year?*
- Found similar prevalence (1% in 1 year look back then asked *please describe the fraud you experienced*
- Investment (.8%) and lottery fraud (.2%)

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Logistic Regression to Predict Financial Fraud Health, Disability, and Cognitive Function in Urban Black Older Adults dataset

Variables	B	SE	Exp(B
Age	.07	.06	1.07
Gender	1.44	1.45	4.23
Education	.10	.17	1.01
IADLs	.28	.15	1.32*
MMSE Total	-.13	.21	.88
GDS	1.41	.61	4.08*
SPPB	.78	2.01	2.18
Financial Satisfaction	-.22	.32	.80

Depression & IADLs predicted fraud

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Types of IADL issues

- 13% reported some help with finances
- 14% some help with medications
- 29% transportation help needed
- 51% complete dependence on 1 IADL

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New Directions in Fraud Measurement

- Created new measures of financial decision-making. Items that help uncover fraud and other FE: *(from Lichtenberg Financial Decision Rating Scale)*
- Do you regret or worry about financial decisions or transactions you've recently made?
  - ✓ Yes (describe)
  - ✓ No
  - ✓ Don't know
- How often do you worry about financial decisions you've recently made?

✓ Never
✓ Sometimes
✓ Often
✓ Don't know

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Measuring the Impact of Fraud: Financial Fraud Research Center Projects

By Michaela Beals

Presentation at *The True Impact of Fraud – A Roundtable of Experts*
April 30 – May 1st, 2014

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5/1/2014

Outline

- Latest white paper

  The Scope of the Problem – An Overview of Fraud Prevalence Measurement

- Survey research project

  The Impact of Survey Context on Self-reported Rates of Fraud Victimization

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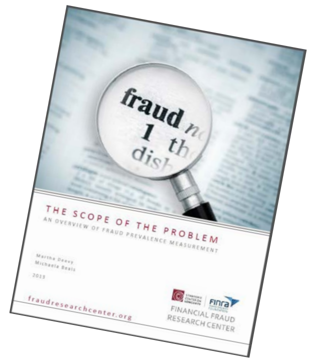
The Scope of the Problem: An Overview of Fraud Prevalence Measurement

Goals :

- Provide an overview of the various methods and organizations that measure victimization
- Incorporate findings from other research areas
  - –Criminology, victimology
  - –Survey methodology
- Provide recommendations and areas for future research



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Prevalence data sources

1. Complaint data
   - Actual cases reported to authorities

2. Survey data
   - Estimates based on the experience of a surveyed sample

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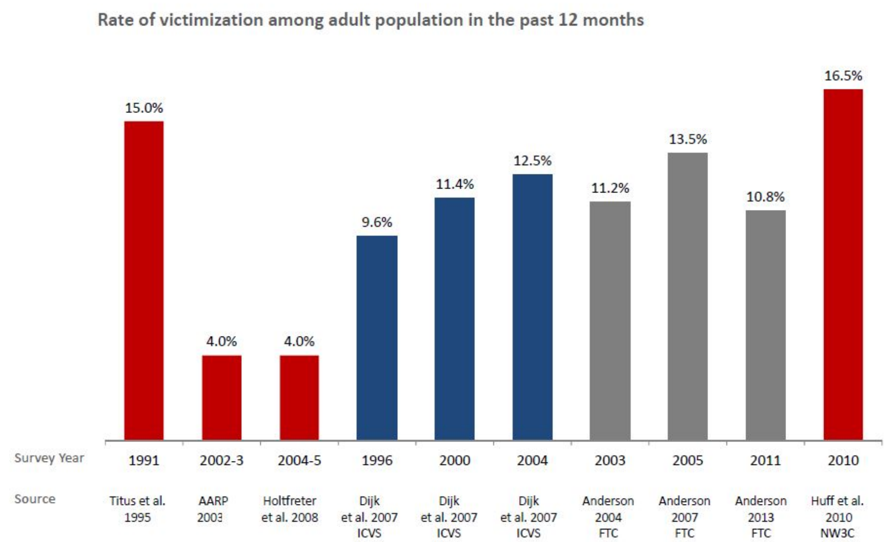
Fraud prevalence variability in surveys



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Sources of variability

Different sample populations

Different definitions of fraud

Different prevalence periods

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Cognitive bias

Survey design can mitigate cognitive biases.

Bias	Design Solution
Memory decay	behaviorally specific questions
Social desirability bias/ Interviewer effects	self-administration, forgiving wording
Context Effects	introductory text, survey name, item orders

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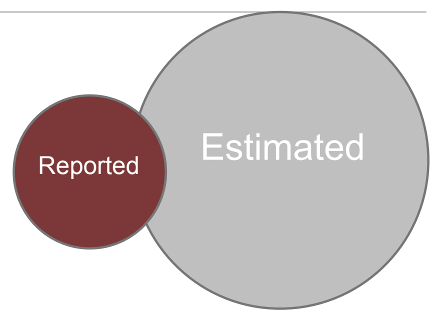
Under-reporting

To authorities

- Reported vs. estimated



In surveys (under-admitting)

- AARP study of 700 known fraud victims
  44.4% of those under age 55 denied victimization
  63.1% of those 55+ denied victimization

- FINRA Foundation study - *Financial Fraud and Fraud Susceptibility in the United Sates*
  Indirect questioning—11% lost money
  Direct questioning—4% admitted it

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Sources: AARP Foundation, 2011; FINRA Investor Education Foundation, 2013

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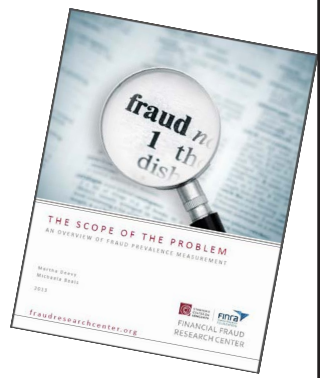
Recommendations

- Inclusion of fraud data in national crime statistics reports
- Research on survey design & on under-reporting
- Studies that include collaboration among multiple partners
- Greater cooperation among agencies and organizations



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Impact of Survey Context on Self-Reported Rates of Fraud Victimization

Background— changes to survey questionnaire wording and design have effects on responses

Method— online survey

Participants — 3,000 U.S. adults (25-95)

Research questions —

1. Does survey context affect self-reported rates of fraud victimization?
2. Are there any moderating factors that affect this relationship?

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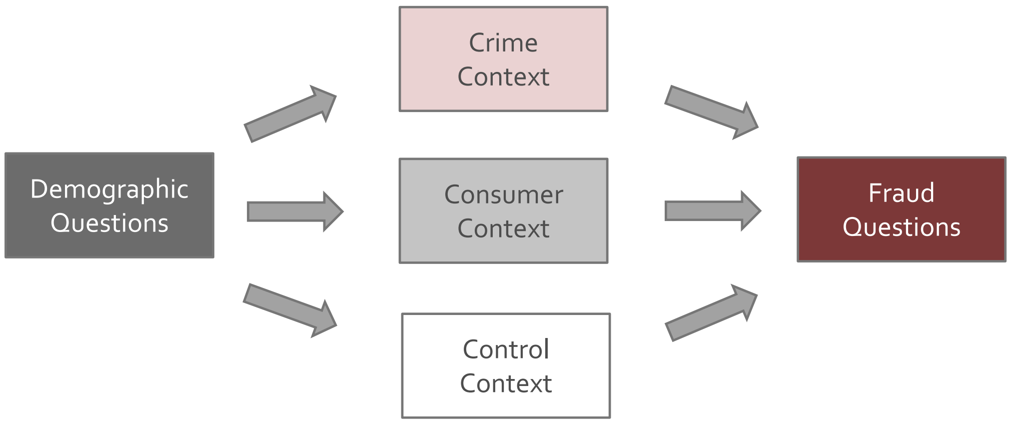
Survey schematic

Method: Random assignment to 1 of 3 online survey contexts



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The "contexts"

Context	Survey Title/ Intro	Sensitizing Questions
Crime	*Crime and Fraud in the United States* Stated purpose: control crime and fraud	6 questions about experience with serious crime (robbery, physical assault, break-ins) (Adapted from NCVS screener questions)
Consumer Purchasing	*Consumer Buying Behavior and Fraud in the United States* Stated purpose: protect consumers	6 questions about experience with various consumer scenarios (telemarketing calls, infomercials, unsolicited e-mail or SPAM) (Adapted from FTC survey questions)
Control	*Fraud in the United States* Stated purpose: protect Americans from fraud	None

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Fraud victimization questions

- 21 questions about various types of fraud
- Included
  - Investment fraud
  - Consumer fraud

"We'd like to ask you some questions about fraud. By fraud, we mean a misrepresentation or concealment of some fact relevant to a transaction of products or services with the intent to deceive for monetary gain."

Ex) Have you ever been defrauded by someone who called you offering an investment opportunity?

Ex) Have you ever been defrauded by someone who told that you had won a prize or a lottery but first had to pay a fee?

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Other variables

- Living arrangement
- Work status
- Marital status
- Self-rated health
- Debt status
- Geography (rural, urban, suburban)
- Satisfaction with friends and family
- Depressive symptoms
- Personality (Big 5 traits)
- Self-identified status ("ladder" status)

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Self-reported socio-economic status

The “Ladder” Question:

“Consider that the following ladder (10-point scale) represents the places that people occupy in society. Higher values on the ladder are the people who have more money, more education, and better jobs. Lower values on the ladder are the people who have less money, less education, and worse jobs (jobs with less recognition) or are unemployed. Where would you place yourself on this ladder?”

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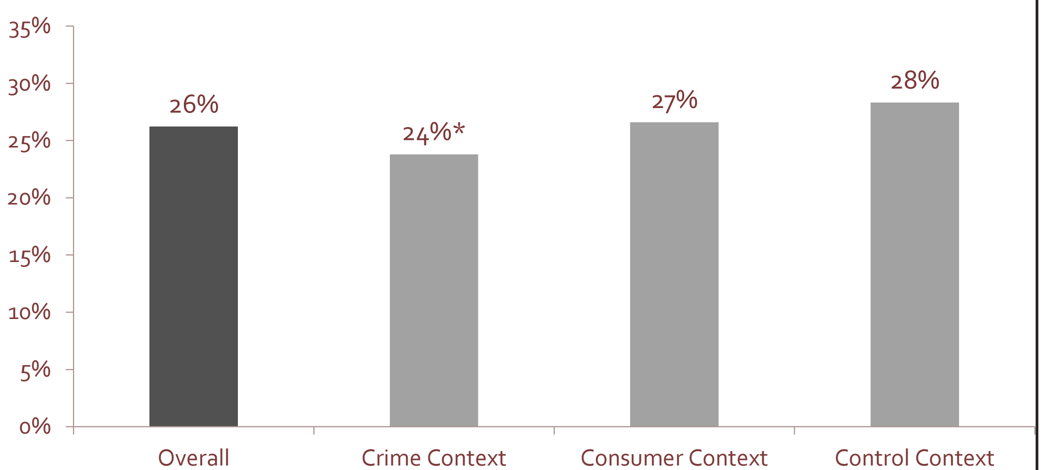
Q 1: Does context matter in reporting victimization?

Yes. Crime context is associated with decreased self-reported fraud victimization.

Percentage who report any fraud victimization in the past year, by survey context; n = 3,000



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* p ≤ .05

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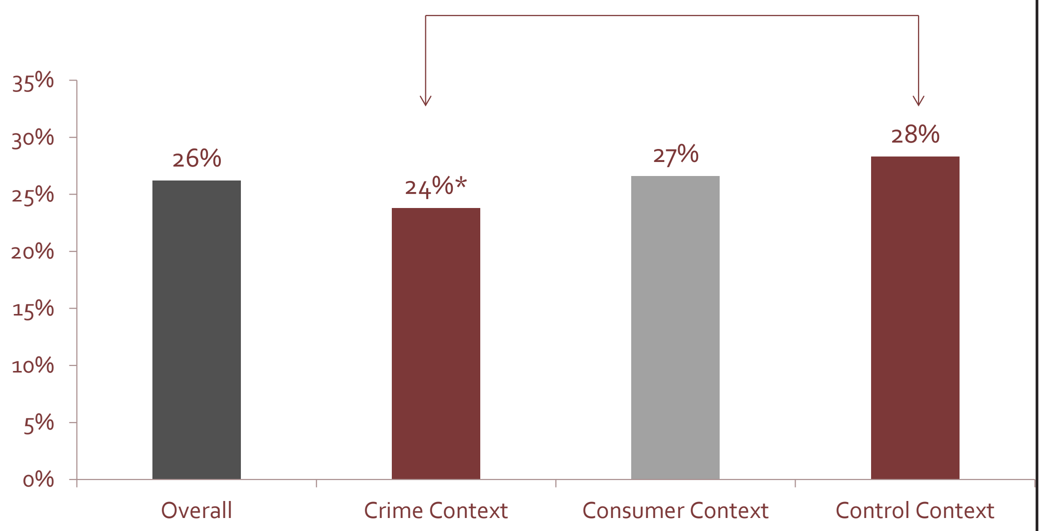
Focus



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* p ≤ .05

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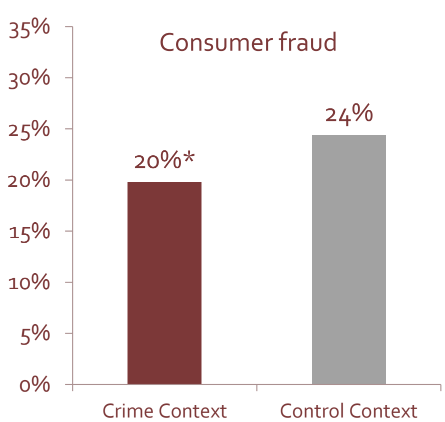
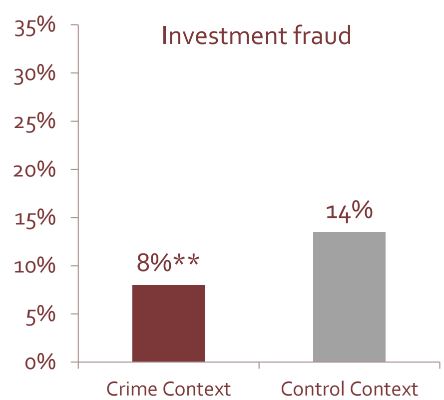
Being in the crime context decreases reporting for both broad fraud categories.

Past-year victimization by context and fraud category; n = 1,985



4 percentage point decrease in crime context



6 percentage point decrease in crime context

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* p ≤ .05; ** p ≤ .01

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Q 2: Are there any moderating factors related to the effect of the crime context?

Yes – age, ladder status, and race

Probability of reporting fraud victimization in the past year

Factor	Crime Context (n = 1,007)	Control Context (n = 978)	Difference
Overall (for reference)	*22%*	*27%*	**-5%***
Age			
65 or older (n= 420)	14%	25%	**-11%** ψ
Under 65 (n= 1,565)	25%	28%	-3%
Status			
High status (8-10) (n= 376)	24%	40%	**-16%** **
Low or med status (n= 1,609)	22%	24%	-2%
Race			
Black (n = 278)	33%	26%	**+7%** **
Not black (n = 1,707)	21%	27%	-6%

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Results from a logistic regression estimating the probability of reporting victimization. The model included age, education, income, status, race, health, work status, living arrangement, debt status, and depressive symptoms. ψ p ≤ .08; ** p ≤ .01; * p ≤ .05

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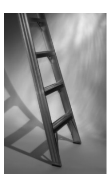
Summary

Context matters.

- Being in the crime context inhibits reporting fraud
- For both consumer and investment fraud

Age matters.

- The crime context has a stronger inhibitory effect for those age 65 and older.



Status Matters.

- The crime context has a stronger inhibitory effect for those with high status.

Race matters.

- Crime context increases the reported rates of fraud victimization for blacks whereas it decreases reported rates of fraud for non blacks.

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Discussion & future directions

Practical implications

- Designing new surveys
- Adding fraud questions to existing surveys
- Comparison of rates across existing surveys

Future directions for this data

- More detailed analyses of specific fraud types
- Further analysis of the consumer context
- Analysis of risk factors

Research implications

- Understanding mechanisms
  - Age, status, race and emotional salience
- Accuracy

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Thank you

Questions?

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5/1/2014

The mission of the Financial Fraud Research Center at the Stanford Center on Longevity is to serve as **a hub in the fight against financial fraud**. The Center **consolidates information, connects research to practice,** and **catalyzes further research**.

This conference was supported by funding from the FINRA Investor Education Foundation. All results, interpretations and conclusions expressed are those of the Financial Fraud Research Center, and do not necessarily represent the views of the FINRA Foundation or any of its affiliated companies.

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