



Victims of Fraud

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Introduction

The Fraud Advisory Panel (FAP) has long been interested in assessing the **total** impact of fraud. The better the problem is understood the more likely we are as individuals, organisations and society as a whole to improve our response.

The difficulty at the moment is that the general understanding of the crucial impacts of fraud are very vague. Although there are estimates of the financial losses from fraud, there appears to have been little research into the impact on individuals and particular social groups. The victims of fraud not only get little attention, but there is a risk that their unique experiences are too little understood. This not only makes it more difficult to help them, it may also contribute to low awareness of the risks of becoming a victim of fraud and a reduced emphasis on prevention.

It is imperative that there is a greater awareness of **who** is getting harmed and **how** exactly they suffer. This was highlighted in our Annual Review 2004 – 2005 which contained case studies from a variety of individual victims of fraud. However, the Fraud Advisory Panel believes that more comprehensive and systematic work is needed in order to obtain a more accurate picture of the economic, psychological and health impact of fraud on individuals, and how this differs between groups of people (eg. elderly, poor, self-employed).

In order to gain a better understanding of the issues affecting victims of financial and commercial crime, the Fraud Advisory Panel held a roundtable discussion on 10 March 2006. The roundtable was attended by representatives from a range of organisations across the public, private and third sectors that deal directly with victims of fraud. Participants included Citizens Advice, City of London Police, Financial Mail, FSA Financial Services Consumer Panel, Fraud Review Team, Lloyds TSB Bank Plc, Office of Fair Trading (OFT), Peters and Peters, Serious Fraud Office, Victims Support, and the Fraud Advisory Panel.

Defining fraud

Currently, there is no precise legal definition of fraud and no single criminal offence which can be called fraud in England and Wales.

Fraud is generally considered to include acts of deception and persuasion, with the principal aim of cheating people out their property and/or money. However this distinction is blurred between what is, and what is not, defined as criminal activity in law. For example, it is not illegal to use another person's identity until it is used to obtain goods and services by deception, yet a victim of identity theft may consider themselves a victim of fraud, regardless of whether a crime has actually been committed in the eyes of the law.

The Fraud Bill currently before Parliament will clarify the definition of fraud and is expected to receive Royal assent in April 2006. The Bill creates a statutory offence of fraud, committed in three ways, where a person dishonestly:

- Makes a false representation, or
- Wrongfully fails to disclose information, or

- Secretly abuses a position of trust

with intent to make a gain or to cause loss or to expose another to the risk of loss.

It should be noted that the new offence relies on proof of dishonesty (*mens rea*) on the part of the defendant, rather than the effect of any representations made on the mind of the victim, as in traditional offences of deception.

The victim

Victims of fraud can be individuals, organisations, and society as a whole.

Individual victims of fraud come from all walks of life, and are usually “*someone just like you or me*”. Some individuals become victims just by living their lives, such as the victims of ID fraud. Other groups of individuals become victims because of a particular characteristic or vulnerability they share. For example, property or investment scams targeting new immigrant communities, or holiday investment scams targeting people seeking to invest in property abroad.

Some individuals do not realise they have become a victim of fraud, thus making the true extent of fraud difficult to determine (eg. charity collection fraud).

The Oxford Concise Dictionary defines a victim as “*a person harmed, injured, or killed as a result of a crime, accident, etc*”. An individual or organisation may classify themselves as a victim of fraud, even though a crime has not been committed under the law, such as victims of ID theft and misleading advertisements for investments. For some, the effects of becoming a victim of fraud are compounded by the legitimacy of their allegations being questioned by the authorities or other institutions. For example, victims of credit card fraud may feel that their lender does not believe them which results in a feeling of double-victimisation.

It is estimated that it can take up to 48 hours of work for a typical victim of identity theft to clear their name and prove a negative (e.g. that they are not a criminal). Identity theft costs the British economy £1.7 billion annually.

[Sources: www.cifas.org.uk & www.identity-theft.org.uk 13 March 2006]

Individuals or businesses can become repeat (or serial) victims of fraud, particularly in relation to 419, lottery and gambling scams. Some groups seem to be more likely to become repeat victims of fraud:

- Individuals who don't learn from becoming a victim the first time “*once bitten, twice shy*” and become a victim on subsequent occasions (eg. gambling and lottery scams).

- Individuals who embrace new and/or emerging technologies are more likely to be targeted by fraudsters, such as internet banking, Bluetooth and online shopping.

Some people refuse to believe they have been a victim of a scam or fraud. Victims may indicate that they are happy to wait for a return on their investment or that they were simply dealing with a “*bad apple*” but the scheme itself works. Self-delusion is difficult to tackle.

Occasionally, victims may unknowingly become perpetrators themselves. For example a victim of a pyramid scheme fraud may have recruited family members or friends into the scheme.

Fraud can have direct and indirect victims:

- **Direct:** The individual or organisation which has been the victim of the scam and/or fraud.
- **Indirect:** Secondary targets of the fraudster, or those who feel the wider effects of the fraud, such as the families of victims, organisations and/society.

The impact of fraud can be equally great for indirect victims. For example, the families of individual victims of fraud may be emotionally devastated by the crime, or have their lives disrupted as they try to sort out the problems – emotional, physical, psychological or financial – caused by the crime. In the case of corporate victims, a business may be unable to recover from the losses suffered and collapse, thus causing small creditors to lose money and employees to lose their jobs.

Lillian Lazonby, a pensioner from Birmingham was targeted by junk mail scammers. It is estimated that she spent over £20,000 on the scams. After her death from stress, relatives found approximately 10,000 letters in her home offering bogus competitions and prizes. The family was left devastated.

[Source: www.gm.tv Scam Stress, 13 March 2006]

The effects of fraud

Fraud has a negative impact on individuals, organisations, and communities. It can divide families and small communities and also has ramifications for society as a whole.

The latest UK Threat Assessment identifies fraud as a major threat to the United Kingdom¹. It has been suggested that the harm from fraud committed by organised crime may be second only to class A drug trafficking². Some of the effects to individuals of becoming a victim of fraud include, but are not limited to:

¹ National Criminal Intelligence Service (NCIS). *UK Threat Assessment: The Threat from Serious and Organised Crime 2004/05 – 2005/2006*. London: NCIS.

² Fraud Review Team (2006). *Interim Report*. London: Fraud Review Team.

- **Physical:** Health problems caused by stress
- **Psychological:** Suicide; depression
- **Financial:** Debt; bankruptcy
- **Social:** Feeling of being ostracised in the wider community; disintegration of the family unit through divorce or estrangement. This may be particularly relevant for cases where fraudulent products or services are unwittingly sold to friends and family (e.g. pyramid schemes, investments).

It is important to note that fraud can also adversely affect the relatives of alleged perpetrators.

The effects of fraud can be particularly devastating for “*vulnerable*” victims such as the elderly, the socially isolated, and the disabled. It is amongst these groups that the emotional and financial impact can be the greatest.

For some, the betrayal of trust can be the same or worse than the actual loss itself.

The impact of fraud can be equally great for corporate victims, particularly small- to medium- sized businesses which may be unable to recover from the financial and/or reputational damage caused. The physical, psychological, financial and social effects of fraud can be the same for business owners as individual victims.

Even large multi-national organisations feel the impact of fraud through the increased costs of doing business.

One of the wider ramifications of fraud is that it can undermine public confidence in legitimate businesses or industry sectors, particularly those that sell products or services known to be targeted by fraudsters, such as timeshare properties, lotteries, and internet shopping websites.

There is likely to be an optimum level of fraud, where it becomes too risky for people to engage in certain activities. For example internet fraud may make people too afraid to shop online, or timeshare frauds may make people apprehensive about purchasing legitimate timeshare properties.

Fraud can also impact on “UK PLC” by lowering the country’s Gross National Product (GNP) and disadvantaging it in the international marketplace.

Fraud can also have a knock-on effect. For example, credit card fraud affects, not only the individual victim, but also the bank that issued the card, the shop in which the card was used, and other consumers through higher fees etc.

Who pays for fraud?

Everyone pays for fraud.

The cost to Government is passed on to the public through increased taxes. The cost to business is passed on to consumers through increased prices of goods and services (e.g. insurance premiums).

Public perceptions

Victims of fraud do not capture the public's attention and do not get the same media attention as victims of other types of crime. However a number of misperceptions are in existence today regarding individual and corporate victims of fraud.

Myth 1: Fraud is a victimless crime

It is not. Fraud affects individuals, organisations, communities and society as a whole.

Myth 2: The victim is to blame

Victims of fraud are often apportioned some of the blame for their victimisation. For example, that they were "*greedy*", "*stupid*" or "*gullible*". Similar assumptions for other types of crime have been gradually refuted over time. However more public detail on the subject is needed before attitudes toward victims of fraud change.

Myth 3: Businesses can afford the cost of fraud

Corporate fraud is often seen as a "*cost of doing business*". Businesses are often perceived to be able to afford the cost of fraud. The effect of corporate fraud upon the business, its suppliers, employees and customers, is largely unrecognised.

Myth 4: Victims of fraud only lose money

Victims of fraud can lose much more than just money. Fraud can lead to health problems, suicide, depression, and the disintegration of the family unit through divorce or estrangement. Corporate victimisation can lead to loss of customers, public confidence in their products and/or reputational damage.

Myth 5: The "vulnerable" are more likely to become victims

New research by the OFT suggests that those members of society often perceived to be the most vulnerable, such as the elderly and young, may not be more likely to become the target of fraudsters. However, when they do become victims of fraud, the effects may be more severe.

What should be done about fraud?

Greater resources need to be allocated to combat fraud. This will not happen until fraud becomes a higher priority for Government. Education of public decision-makers is vital to this process.

The interface between the victim, the public and the authorities needs to be considered. Victims need to know that their victimisation is being taken seriously. However, victims are often confused about how and where to report allegations of fraud and it can be difficult for them to access support, information and, in some cases, compensation. This can be compounded by the messages received from law enforcement that the crime is “*outside our jurisdiction*” or “*it’s not a crime*”. Victims need to know that something will be done about the crime if they report it.

A combination of consumer education initiatives and greater enforcement could be an effective way to reduce fraud. This method has been successful for other types of crime such as drink driving:

- **Consumer Education:** The public needs to be encouraged to protect itself against fraud. Greater consumer education would reduce the opportunities for people to be misled by fraudsters. For example, the Australian Securities & Investments Commission (www.asic.gov.au) enables victims to share their experiences of scams online. Initiatives could include guidance on how to recognise and avoid scams, the establishment of a one-stop-shop for fraud information and a national reporting line for fraud. Consumer education may not reach some vulnerable groups. Therefore consumer education is not the panacea and needs to be combined with greater law enforcement to be fully effective in combating fraud.
- **Enforcement:** Most fraudsters are aware that the chances of being detected, prosecuted and convicted are low. Even if convicted the sanctions imposed are unlikely to be severe. A greater emphasis on disruption by law enforcement, coupled with greater sanctions, is likely to be sufficient to deter many fraudsters. Some constabularies now have no fraud squad, or have merged their duties into a larger department with a wider brief, where the former expertise is diluted or lost completely, resulting in a perception by victims that fraud is not important even to law enforcement. The Unfair Commercial Practices Directive will give certain agencies wider-ranging powers to tackle deceptive trading practices which should offer some further protection to victims of fraud.

Other options include the promotion of an anti-fraud strategy and the establishment of a national fraud database.

Fraud research

Until recently, fraud research in the United Kingdom has been almost exclusively concerned with the prevalence and incidence of various types of fraud, such as insurance, credit card and identity fraud. There are no official statistics on fraud, although a cross-party review of crime statistics is currently being conducted. (A copy of the press release is available from <http://press.homeoffice.gov.uk/press-releases/major-review-of-crime-stats>).

Some attempt has also been made to extrapolate these figures to determine the economic cost of fraud, such as the NERA report which estimated the cost of fraud to the UK economy to be £13.8 billion in 2000³. NHS publicity material contains examples illustrating how fraud savings translate into greater services for patients.

Current research on fraud includes, but is not limited to:

- Research commissioned by the Association of Chief Police Officers (ACPO) to review available statistical information on fraud, to develop measures of harm to the economy and to create a model for organisations to record fraud.
- Research being conducted by OFT on scams including interviews with victims. The results will be published in April 2006.
- Research recently conducted by CIFAS – the UK's Fraud Prevention Service to assess the impact of identity fraud on victims.

Very little research, academic or otherwise, has been undertaken on the victims of fraud, and the human cost of fraud remains largely unknown. Although some attempts are now being made to determine the impact of fraud on victims, additional research in this area would add real value.

A combination of research into the economic costs of fraud, victimisation surveys and anecdotal evidence will establish a more accurate picture of the impact of fraud which can then be used to influence public perceptions and Governmental priorities. Such research should attempt to differentiate between the individual and corporate victim.

³ S Jones, D Lewis and P Maggs (2002). *The Economic Cost of Fraud: A Report for the Home Office and the Serious Fraud Office*. London: NERA Economic Consultants.