The Human Impacts of Fraud

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Foreword from the Commonwealth Fraud Prevention Centre

Fraud is a serious, underestimated and unchecked problem and in reality, the impact of fraud goes well beyond financial loss. This white paper notes that there is a lack of academic research in Australian on the significant impacts fraudsters have on their victim’s lives. The Commonwealth Fraud Prevention Centre (the Centre) supports research on the human impact of fraud as it will help Australian Government entities to understand the problem and focus their control measures and responses. The Centre thanks Macquarie University for continuing to research this area and looks forward to future papers.
Executive Summary

Fraud is a prevalent crime in Australia, one which targets specific groups of vulnerable people/agencies. Its economic impacts and costs are estimated to amount to up to AU$3 billion annually. However, there exist a number of non-financial harms of fraud which are not fully understood in Australia. This white paper reviews the available material, both in research and policy arenas to assess the need for further understanding of the non-financial effects of fraud on victims and their communities. Our findings indicate that – unlike partner countries, such as the UK – there is a significant lack of understanding with regards to the totality of the harm and consequences of fraud. To date, most policies and research are directed solely towards the monetary aspect of fraud. As a consequence, the experience and harms of fraud placed on victims are largely lost to policymakers, hampering the design, and implementation of effective anti-fraud prevention strategies. We argue, finally, that generating knowledge on the non-financial impacts of fraud – alongside the traditional focus on the monetary aspect – will lead to better, evidence-based fraud prevention policies and risk management strategies benefitting the public and the private sector.

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INTRODUCTION

Fraud and related offences have a significant impact on victims’ lives. Despite this, deception-related crimes do not have the same visibility as other offences, especially comparable property related crimes. For a variety of reasons, fraud suffers from systemic under-reporting, on the part of both victims and criminal justice agencies, which impairs the ability of Governments to understand the full scope of the problem.

In a 2013 report, KPMG estimated that only 46% of major fraud incidents are reported to detection agencies. Similarly, the Australian Institute of Criminology (AIC) (2016) identify that only 57% of card fraud incidents, 51% of identity theft incidents and 36% of scam incidents are reported to the police. This compares poorly to the reporting rates of other property crimes, such as 87% for motor vehicle theft, and 74% for break-ins and 64% for robbery (ABS, 2020).

Furthermore, within the reporting of fraud, there is a strong imbalance that tends to focus primarily (if not solely) on the financial impacts of fraud. While the monetary impacts are important when measuring the impact of crime, it is important to underscore the fact that there exist many harmful impacts beyond that of monetary concern, harms which have a significant impact on victims’ lives and their communities.

The need to focus more on the harmful impacts of financial activity, including that of fraud, responds to a key finding from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, which highlighted how systemic cultures of greed led to financial misconduct, creating widespread harm. Indeed, Commissioner Hayne (2019) spoke of the “profound personal effects” that financial misconduct had on individuals who had been victimized.

Such issues demonstrate the impact of financial misconduct, including fraud, on victims and underscores the need for greater critical insight into the impact of such practices, thereby advancing our understanding of both what fraud is and how it impacts victims, communities and society.

In this report, we argue for the need to produce new knowledge that helps better raise awareness of, and understand, the true, human impacts of fraud. This is not to shift attention away from the costs of fraud as measured in monetary terms, but to better understand the emotional impact and health shifts that press on individuals, communities and business organisations alike.

FRAUD IN AUSTRALIA

Policy responses to fraud rarely acknowledge or respond to the non-financial, or human, impacts of fraud. While there is an increased awareness of the human impacts of fraud, in Australia fraud remains overwhelmingly measured in financial terms, focusing on monetary loss, without a fuller understanding of the human impacts of victimisation (ABS, 2016; Jorna and Smith, 2019; Smith et al., 2014).

It is estimated that the cost of fraud to the Australian public, businesses and Governments was as much as $6 billion in 2011 alone (Smith et al., 2014). Similarly, fraud against and within the Commonwealth cost $1.7 billion in the period 2017-2019 (Teunissen et al., 2020). Of this total, 1.6 million adult Australians (8.6% of the population) were impacted by personal fraud with an estimated cost of between $1.4 billion and $3 billion annually.
Furthermore, these financial estimates are growing exponentially. For example, Teunissen et al. (2020) explain that, between 2016 and 2019, fraud against the Commonwealth increased threefold, from $1.1 billion to $3.6 billion. In 2019, scams alone (such as investment scams, romance/dating scams etc.) totalled $634 million (ACCC, 2019). As more of us conduct our private and commercial lives through internet technology, electronic storage and unchecked sharing of personal information, we are all at greater risk of fraudulent practice (Jorna and Smith, 2019; Teunissen et al., 2020).

The COVID-19 pandemic has led to a significant increase in online commercial activity, as shown in Figure 1, and, with it, an increase in fraud, including fraud that has targeted Commonwealth government support measures, such as JobKeeper and early access to Superannuation. At the same time, a KPMG survey of Australian businesses found that 72% thought the risk of fraud and corruption had increased during the COVID era, with 92% stating they believed the risk of cyber-fraud had increased as well (KPMG, 2021).

Most commonly, the lack of reporting in fraud is due to victims not always being aware of their victimisation (Fooks, 2003; Button and Gee, 2013). The very nature of fraud is that, unlike other property offences, victims are deceived in a way so that their victimisation – if successful – could remain undetected (Button and Gee, 2013; Reurink, 2018).

This, however, is not the same as being a ‘victimless crime’, with the literature pointing to human, or emotional, factors for victims not reporting instances of fraud to enforcement agencies. For example, feelings of shame, humiliation or complicity in their victimisation are cited as key reasons for individuals and businesses failing to disclose fraudulent practice – however, the same emotional impact rarely features in policy reports or measurements of fraud (Smith et al., 2014; Teunissen et al., 2020).

All this brings us to the conclusion that, in Australia, understanding of fraud is overwhelmingly limited to financial costs, overlooking the significant human impacts of fraud victimisation (Jorna and Smith, 2019; Smith et al., 2014). This oversight creates a problem in which the impacts of fraud on victims is only narrowly conceived and the full range of emotional and wellbeing consequences are flattened through the prism of monetary value. There is an urgent need, therefore, to incorporate the human impacts of fraud to assist in the building of risk management structures to ameliorate the full impact of fraud on individuals and businesses.

**FRAUD IN THE CONTEXT OF HARM**

One of the main challenges in dealing with fraud lies in its broad definitional operationalisation. Fraud is, after all, a loosely conceived heterogeneous group of offences that are united by the act of deception...
(Button et al., 2014; Reurink, 2018; Wells, 1997). Most commonly, fraud is associated with white-collar crime, largely because the most high-profile fraudsters are professionals who perpetrate the offense from positions of power. However, there are many incidents of fraud perpetrated by those not in positions of power, such as street criminals pursuing lower risk criminal careers in plastic card fraud, “boiler room” investment fraud, “scammers” sending out phishing e-mails, and “blue collar” workers fiddling at work (Button et al., 2009; Jorna and Smith, 2019).

Because of its association as a white-collar crime, fraud is often viewed as a problem for organisations and seen as a ‘business cost’ (e.g. Button and Gee, 2013; Levi, 2008) that has only a secondary impact on States/Territories and the Commonwealth (Teunissen et al., 2020). Lost within these accounts are the impact on individuals, not as economic agencies counting financial loss, but the detailed experiential and human impacts fraud places on wellbeing.

This lack of in-depth understanding harms the ability of Governments to design and implement effective policies around fraud. For the purpose of clarity, we borrow Reurink’s (2018) conceptualisation of fraud as, “a form of misinformation that provides false, incomplete or manipulative information to deliberately mislead individuals and groups” (Reurink, 2018: 1293 - emphases added). Understood in this way, fraud may be committed by financial institutions or deviant individuals, but the focus remains on the action of misdirection and its consequences for victims – individual or corporate.

Such an operationalisation of fraud helps us broaden its scope to include non-financial effects of deception, or misinformation. This is to, in other words, include the principal of harm that, as Hillyard et al. (2004: 1) argue, moves beyond narrow categories of crime and victimisation to focus on the variety of different ways ‘outcomes’ will impact – or harm – core issues of wellbeing. The focus on harm, therefore, brings a more holistic level of analysis to measure the full range of social, individual, community and organisational impairments that have resulted – directly or indirectly – from fraud victimisation.

However, there is little or no acknowledgement of the human impact of fraud in Australia. Where some, such as Mayhew (2003), do touch upon human harms of fraud, including days off sick due to emotional stress, this is only used to further bolster the overall estimated financial loss incurred. Similarly, Smith et al. (2014: 58) acknowledge there are “indirect fraud costs”, which include stress-related illnesses, humiliation and even suicide, however, they cite an “absence of research into the health impacts associated with fraud victimisation” as a persistent factor limiting understanding and policy response.

Such findings suggest that beneath the monetary valuations of fraud lie more human and social impacts, which are, hitherto, unexplored by academic or policy literature in Australia. Beyond the continent, however, there is increased recognition of the importance of adopting a more holistic account of fraud victimisation, especially in the UK context.

The UK is, arguably, leading the field in this context, led by Action Fraud and the Centre for Counter Fraud Studies at the University of Portsmouth. For example, examining the impact of identity fraud, Pascoe et al. (2006) highlights the importance of emotional impact, with victims experiencing agitation, distress along with feelings of violation, stress and anger. In the context of pension fraud, Spalek (2006) found that anger was a common emotional impact of the fraud, leading to stress, anxiety and fear as a result of their loss. Similarly, Button et al. (2009) argues for the importance of recognising impacts such as behavioural changes, social and family impacts, self-blame as well as health and emotional shifts of fraud victimisation.

Whilst there has been much research on victimisation related to mainstream ‘conventional crimes’ with an identifiable victim (Spalek, 2006; Walklate, 2007), there has only been little research on fraud victims (Levi, 2008; Shichor et al., 2001) with scant information available relating to the Australian context. As a result, little remains known as to the social demographics of fraud victimisation in Australia, nor do we have a picture of the full range of impacts victims suffer from beyond that of monetary loss.

Failing to understand and address the full harms of fraud is to overlook the very real suffering and
human impacts of fraud victimisation. There is, in other words, an urgent need for researchers and policy makers in Australia to do more to incorporate the full impacts of fraud victimisation on individuals, communities and organisations alike. Limiting this understanding of priority solely to economic factors fails to fully recognise the complex and emotional challenges faced by victims.

PRODUCING KNOWLEDGE AND POLICY

The overall effects of fraud – financial and non-financial – have been extensively explored in the UK, however Australia is at risk of lagging far behind in terms of non-financial impacts (International Public Sector Fraud Forum, 2020; Button and Gee, 2013). In Australia, information on fraud against the Commonwealth was first collected by the AGD in 1995. The Australian Institute of Criminology took over this role in 2006. Since then, the AIC has conducted the annual Fraud Census and produced a number of insightful publications based on statistics on fraud experienced by Commonwealth entities and how fraud risks are managed across the Commonwealth.

Regionally, organisations like IDCare have been pivotal in providing services aimed to minimise the harm that misuse of identity information has in both Australia and New Zealand. They do so by providing both response and mitigation strategies to organisations invested in protecting the identity information of their stakeholders.

However, the human cost of fraud remains under-explored, highlighting the need for a better understanding of the non-financial impacts of crime. This would bring Australia in line with other OECD partners and build on the current local research to provide a solid knowledge base needed to design, implement, and evaluate anti-fraud and related prevention, detection and response policies for the local context, taking into account the human impact of this crime.

What would the benefits of a better understanding of non-financial impacts of fraud be? Significantly, it would enable the AGD, in its role as the Australian representative of the International Public Sector Fraud Forum (IPSFF), to contribute to a greater understanding of the human impact of fraud among the members of the IPSFF (Australia, Canada, New Zealand, USA and UK). More broadly, an enhanced understanding of the true nature of fraud and its impacts will assist the IPSFF to strengthen the guidance it provides through publications, such as the Guide to Understanding the Total Impact of Fraud (2020).

An approach to fraud that includes human impacts would ensure that the Commonwealth Fraud Control Framework is better placed to support Government entities to understand and address the, hitherto, hidden nature of fraud victimisation. Such an approach would ensure businesses, as well as States/Territories, are able to appropriately, and more accurately, understand the core elements of fraud control: fraud risk assessments, fraud control plans, and appropriate prevention, detection and investigations measures.

In turn, including the human impacts of fraud victimisation will generate greater understanding, helping to better target investment and assist Governments design safer and more fraud resilient policies, thereby reducing unintended harms to individuals and businesses. This deeper knowledge base can also help inform future policy decisions when responding to emergencies (for example in providing emergency relief funds) or other time-sensitive processes.

It is only by enhancing our critical understanding of the true, human, impact of fraud that we will be able to build the appropriate measures required to ameliorate the challenges individuals, communities and business groups face.
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