



Australian Government  
Australian Institute of Criminology

# 11<sup>th</sup> Annual Fraud Summit 2010

*Understanding the drivers of fraud  
and the motivations of offenders*

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# Outline

## Scoping the fraud environment in Australia

- What drives financial crime?
- The effects of the global financial crisis
- Trends in detected fraud

## Profiling fraudsters

- Individual characteristics
- Personality types and white collar offending
- Motivations
- Rationalisations

## Reducing fraud risks

- Individual-based psychological approaches
- Using offender profiles as a risk assessment and crime reduction tool



# Scoping the fraud environment in Australia

## Fraud is 'where the money is' (Willie Sutton)

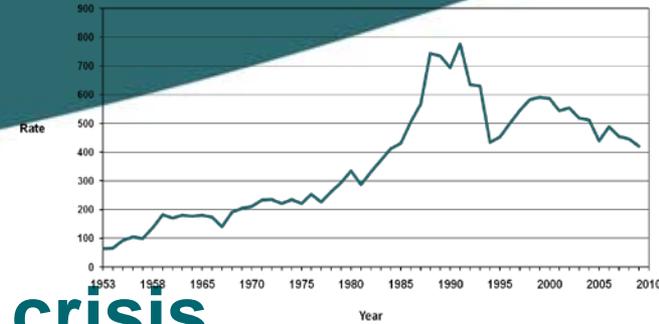
- *Public sector* – new benefits, new taxes, new e-payment systems, new programs (e.g. emissions trading, home insulation, school building)
- *Private sector* – new financial products, new payment systems, new financial pressures

## Misusing new technologies

- Technologies of forgery and counterfeiting
- Technologies of information – databases of personal information
- Electronic payment systems to transfer funds illegally
- New hardware and software – mobile devices, wireless networks

## Corruption risks

- Corruption of insiders to gain access to secure systems
- Collusion between criminals and others (20% of fraud – KPMG 2009)



## The effects of the global financial crisis

Fraud driver	Increased risk	Reduced risk
Availability of opportunities and suitable targets	<ul style="list-style-type: none"><li>• Availability of government payments / professionals willing to create secrecy vehicles and / or falsify documentation</li></ul>	<ul style="list-style-type: none"><li>• Potential fraudsters who lose jobs</li><li>• Reduced income / assets in business</li><li>• Reduced capacity to lend</li></ul>
The presence of suitably motivated individuals	<ul style="list-style-type: none"><li>• Perceived need to maintain failing businesses</li><li>• Perceived need to maintain lifestyle</li></ul>	<ul style="list-style-type: none"><li>• Acceptability of business failure and / or reduced lifestyle in times of recession</li></ul>
The absence of capable guardians	<ul style="list-style-type: none"><li>• Pre-existing frauds detected following reduced inflow of sustaining funds (e.g. Ponzis)</li><li>• Perceptions that law enforcement and regulators are over-stretched</li></ul>	<ul style="list-style-type: none"><li>• Increased learning from other countries' experiences</li><li>• Increased internal controls on lending and transactions</li><li>• Increased awareness of risk, surveillance and early intervention by regulators</li></ul>



# Profiling fraudsters

## Biological determinism

- Giambattiste della Porta (1535-1615) – ‘thieves have small ears, small noses, slender fingers, bushy eyebrows, and mobile eyes’
- Lombroso *L'Uomo Delinquente* (Criminal Man 1876) – ‘Criminaloids’ (drawn into crime by chance); ‘Habitual criminals’ (life’s circumstances)

## Demographic and workplace characteristics

- Age, sex, education, ethnic background, personality
- Criminal background (recidivism)
- Type of job, level, length of employment

## Motivations and rationalisations

- Cupidity
- Maintenance of lifestyle
- Gambling and addictions





## Serious fraud offender profile (AIC/PwC)

### SERIOUS FRAUD OFFENDER

MALE

NO PRIOR CRIMINAL  
RECORD

RELATIVELY STABLE  
EMPLOYMENT WITH  
VICTIM ORGANISATION

AGED IN MID-40s

DIRECTOR OR  
ACCOUNTING  
PROFESSIONAL

MOTIVATED BY GREED  
OR GAMBLING

AUSTRALIAN

SECONDARY EDUCATION  
OR SOME PROFESSIONAL  
QUALIFICATION

ACTS ALONE IN THE  
COMMISSION OF THE  
OFFENCE



# Personality types and white collar offending

## Prior research in the United States

- '*Desire for control*' positively related to intention to engage in corporate offending (Piquero et al. 2005)
- '*Social conscientiousness*' is negatively related to white collar offending – offenders are more unreliable, irresponsible, opportunistic, manipulative, suspicious and judgmental (Collins & Schmidt 1993)
- '*Competitiveness*' in men is positively related to intentions to engage in insider trading (Terpstra 1993)
- '*Negative emotions*' (lack of discipline, insensitivity to others) is positively related to white collar offending (Collins & Bagozzi 1999)
- '*Positive extroverts, disagreeable, neurotic types*' have a tendency towards white collar offending (Alalehto 2003)
- '*Low self-control*' is **less** predictive of corporate offending than organisational theories would predict (Simpson & Piquero 2002)



# Personality types and long-term recidivism

## Sample and procedures

- Study of 64 federal, white collar offenders in Indiana penitentiaries
- Data from official records, interviews and personality tests

## Personality measures

- Jesness Personality Inventory scales collapsed into 4 groups:
  - *aggressive* (manipulative, hostile, anti-social values)
  - *neurotic* (anxious, defensive, insecure)
  - *dependent* (followers with no anti-social values)
  - *situational* (pro-social, conforming, naive)

## Recidivism measures

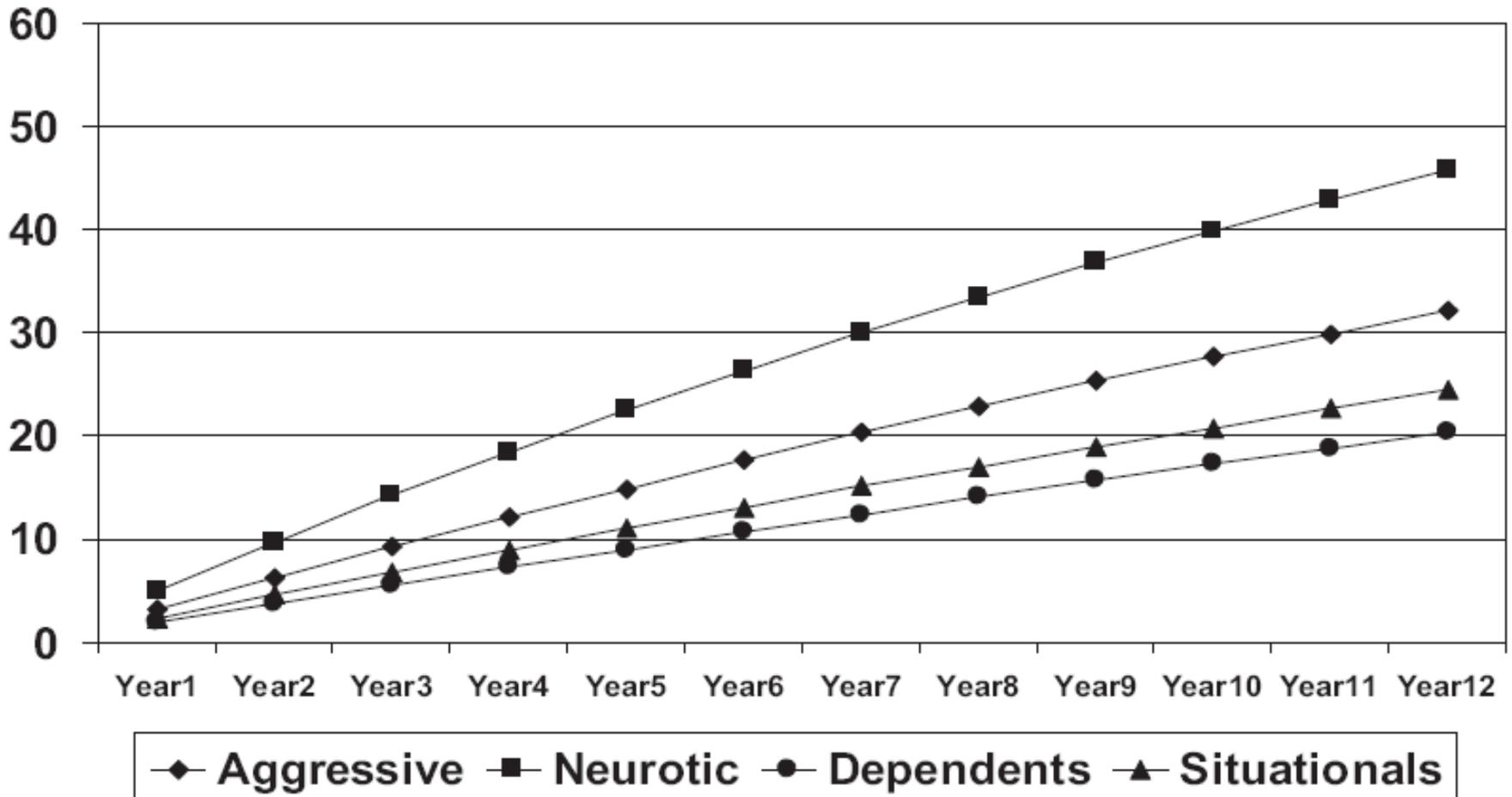
- Re-arrested between 1986 and 1998 (over 12 years)

## Controls

- Marital status, dependents, education, employment, race, SES



## Probability of re-arrest by personality type by year





## Personality types and long-term recidivism

### High desire-for-control individuals (*aggressive type*)

- Tend to be over-confident in their own abilities
- Have unrealistic goals and expectations
- Are assertive in manipulating events to their advantage
- Pass their failures off onto others

### High negative-affectivity individuals (*neurotic type*)

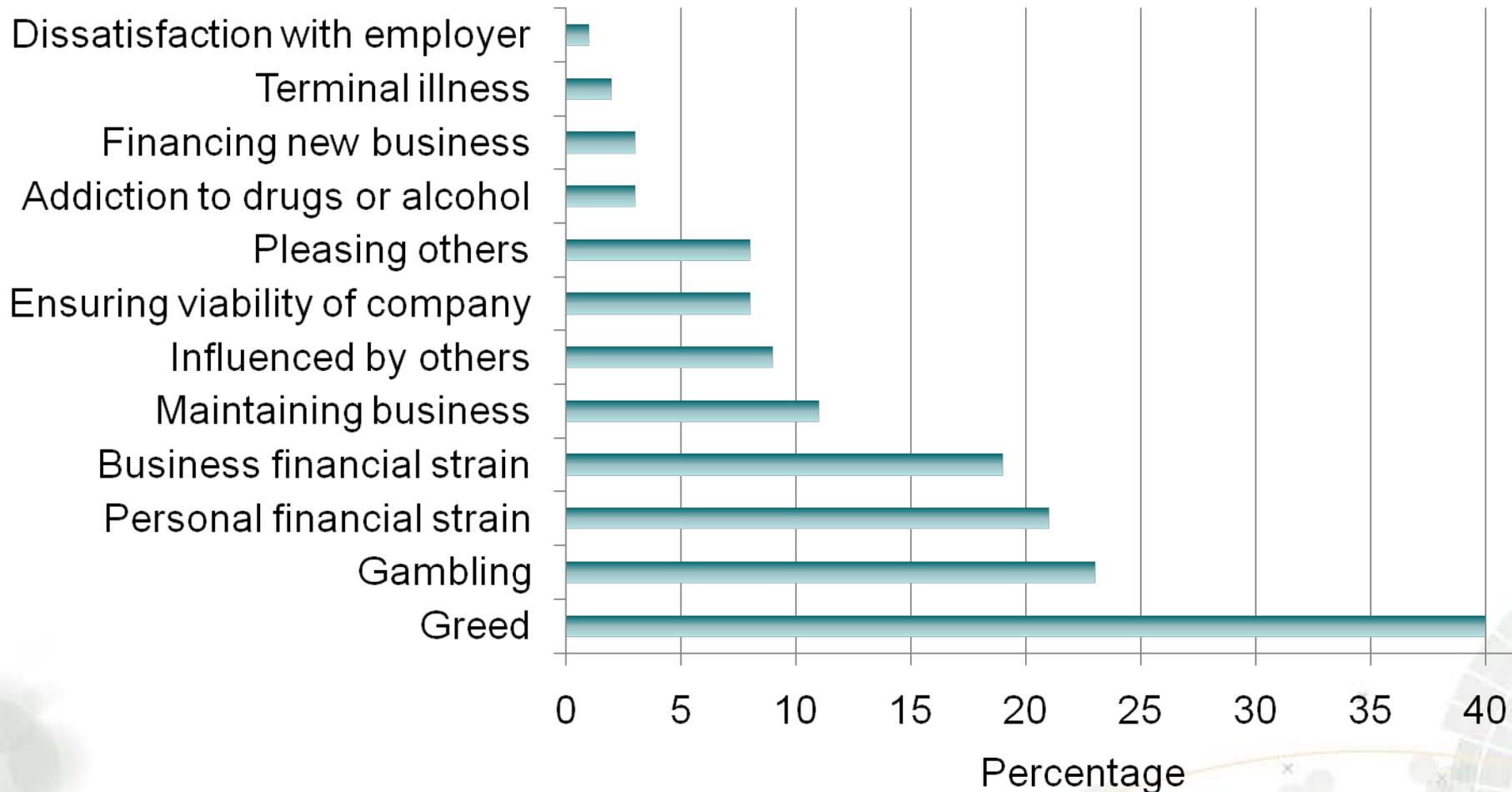
- Avoid challenging situations
- Have a lower threshold for experiencing negative events
- Have difficulty meeting their own goals

### Both types of individuals

- Proficient in making excuses and being negative
- Proficient in finding alternative ways of reaching the high standards they have set for themselves – even if these are dishonest

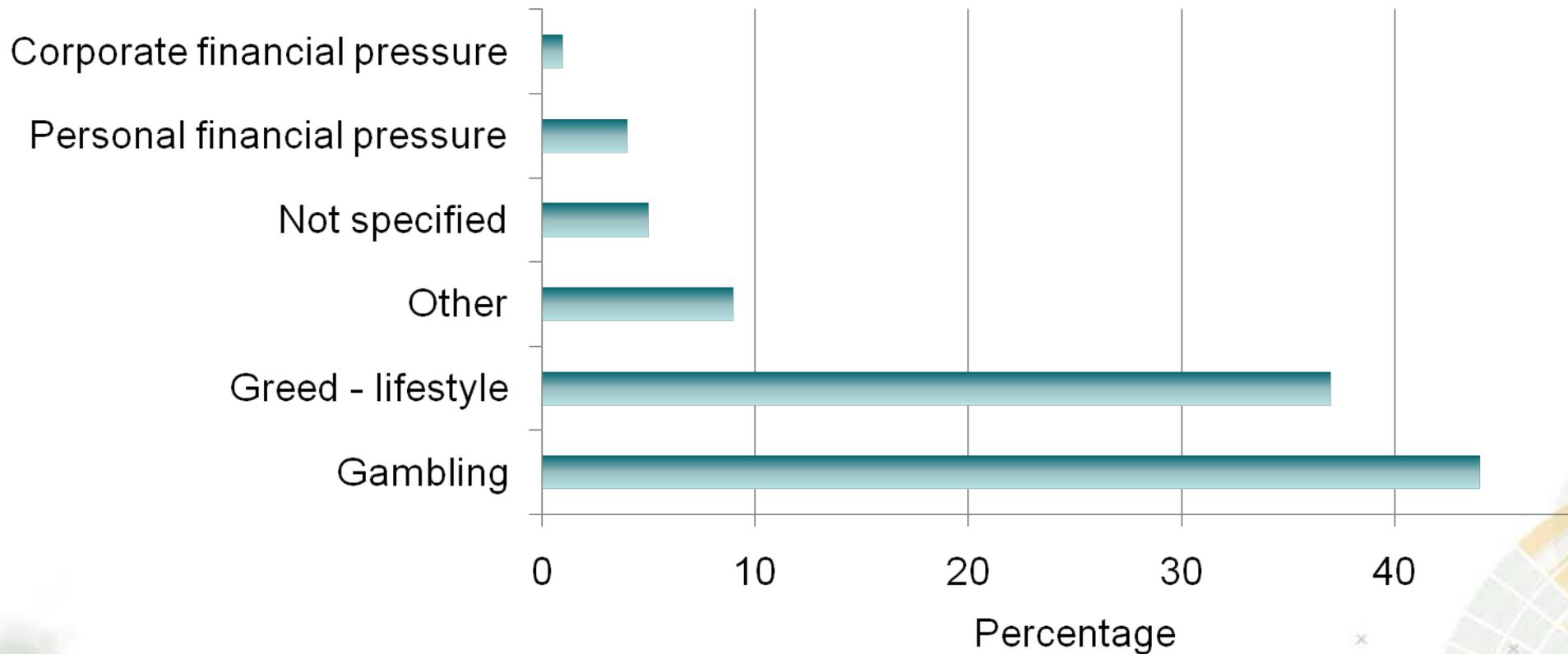


## The motivations of fraudsters (AIC/PwC 2003)





## The motivations of fraudsters (KPMG 2009)





# The techniques of neutralisation

## Denial of authorship

- Shifting blame onto others, or claiming to have been coerced into offending

## Sharing responsibility

- '*They can afford it*'; '*fraud is rife*' and '*everyone's doing it*'

## External influences

- Global financial crisis created pressures that led to the fraud

## Denial of injury

- Intended to repay the money so that no-one would have lost out

## Denial of illegality

- Conduct was technically not wrong, or they didn't know it was illegal

## Denial of culpability

- Offenders were sick or affected by circumstances beyond their control

## Appeal to higher loyalties

- Laws can be ignored due to higher loyalties owed to friends and family



## Individual-based psychological approaches to fraud reduction

### Reducing the provocations that encourage offending

- Dispute avoidance – personnel management, recruitment screening
- Arousal reduction – dealing with problem gambling, lifestyle pressures
- Temptation reduction – employing good internal business controls

### Removing excuses used to justify offending

- Publicity of rules – making laws known and understandable
- Appeals to conscience – explaining the benefits of compliance
- Aiding regulatory compliance – making it easier to act honestly

### Making effective use of offender profiles

- Understanding the profiles that apply to your business environment
- Using offender profiles as a risk assessment and crime reduction tool
- Evaluating the effectiveness of using profiles for risk reduction



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