



**Australian Government**  
**Australian Institute of Criminology**

# Understanding the drivers of fraud and the motivations of offenders

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# Outline

## Scoping the fraud risk environment

- 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 risk environment

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

- *Public sector* – new benefits, new taxes, new e-payment systems, new government programs
- *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 via displacement

- 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

### 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)

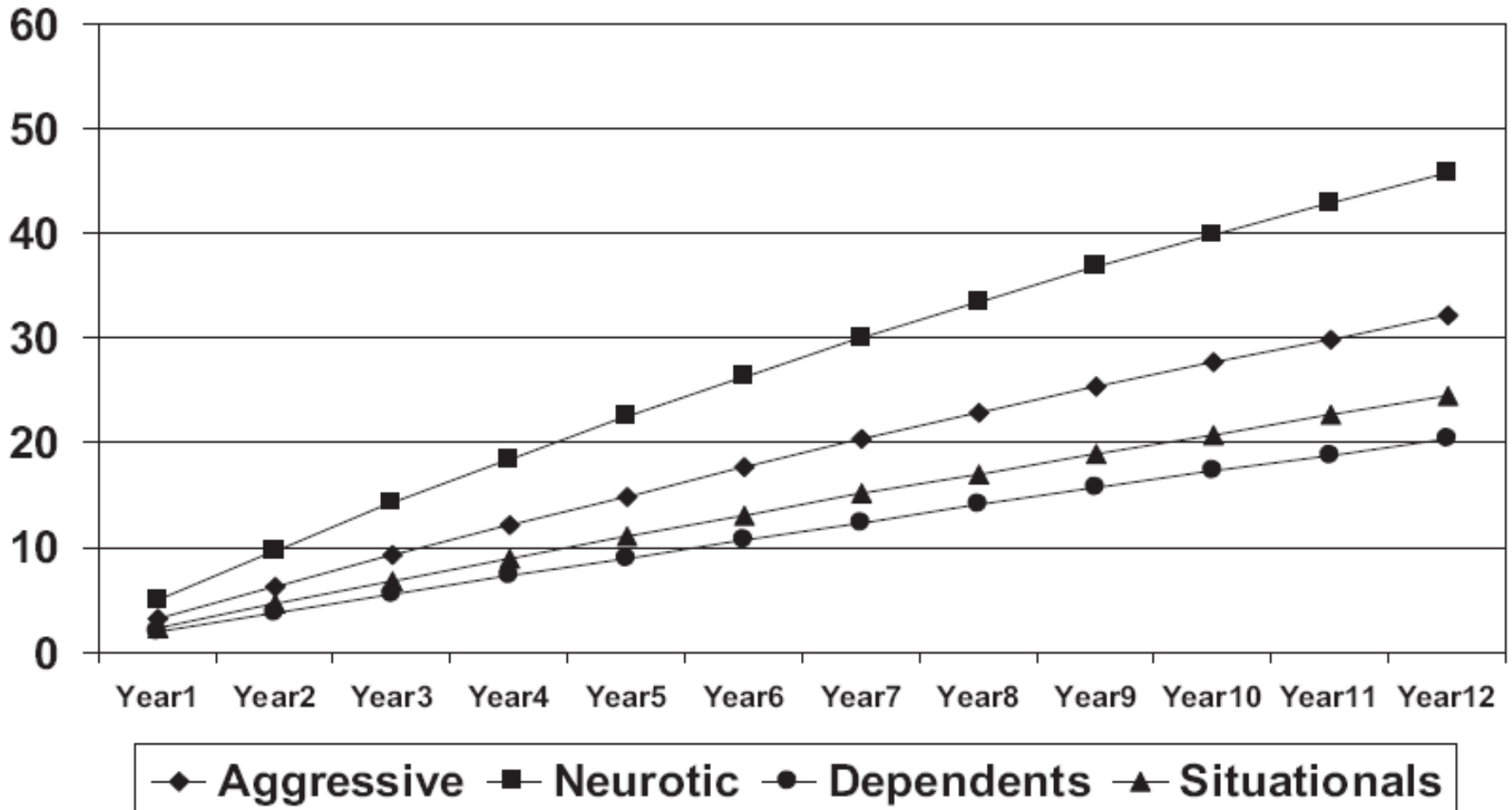
## Controls

- 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*)

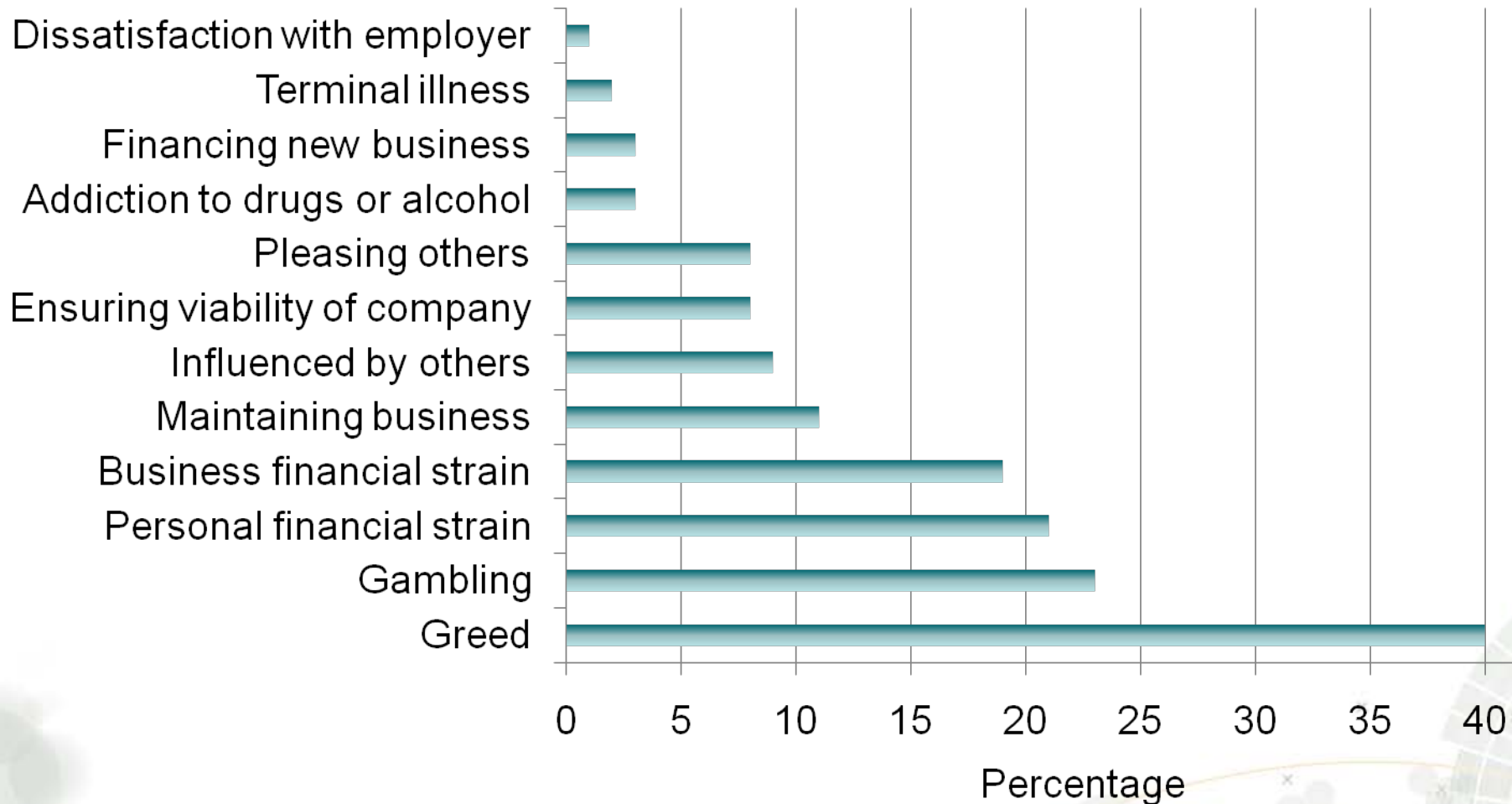
- Avoid challenging situations
- Have a lower threshold for experiencing negative events
- Have difficulty meeting their own goals

### 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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Australia's national research and knowledge centre on crime and justice



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## Welcome

Welcome to the website of the Australian and New Zealand Society of Criminology (ANZSOC). The society is devoted to promoting crime practice in the region and bringing together person field. The membership of the society reflects the diversity, including practitioners, academics, policy makers view the Society's [statement of purpose](#).

The Society conducts an annual conference and the Australian and New Zealand Journal of Criminology

Those interested in becoming a member can obtain the benefits of membership of ANZSOC include:

- A reduced registration fee at the annual conference
- Free subscription to the Australian and New Zealand Society of Criminology
- Special seminars and workshops in each state crime and criminology;
- Awards and prizes; and
- Opportunities to meet visiting distinguished scholars



## Newsletter

Volume 7, Issue 1  
May 2010

### PRESIDENT'S WELCOME



Welcome to the first ANZSOC Newsletter for 2010 – and my first opportunity to welcome you as the 16th President of ANZSOC. I'm delighted to take on this role at a time when the Society is increasing in size and influence in Australia, New Zealand and internationally.

One of my goals for the two years ahead is to enhance our presence in New Zealand, both by recruiting new members and by providing more benefits for our New Zealand membership. New Zealand has not only been a wonderful host for our conferences, but has also provided a source of important developments in criminal justice policy and practice. The application of restorative justice is a case in point.

I'd also like to foster relationships with other criminology societies across the Asia-Pacific region, and beyond. There is now an established network of researchers with an interest in criminology in China, Hong Kong, Korea and Southern Asia. ANZSOC would like to develop closer links with each of these groups, as well as those in other parts of the world. All ANZSOC members can assist by distributing this Newsletter and information about our conferences and other activities

whenever you go to overseas conferences and meetings. Our Secretary can provide copies for you to take – so just ask her.

Another goal for the years ahead is to enhance the benefits for ANZSOC members of belonging to the Society. We now have a new Website which has enormous capabilities for the dissemination of information of interest to criminologists – including employment opportunities, career advice, help for young scholars, facilitating links with other researchers, updates on new developments in criminology, and upcoming conferences that might be of interest. This Newsletter is one way in which to share information; and the Website offers another. We'll be seeking your help in providing new content for the Website, and asking you how the Website could be developed to make it more useful, and easy to operate. Now that we have established our secure online payment system, keeping up to date with membership dues will be quick and simple. Members can also access the restricted sections of the Website to find other useful content – so try it out, and let me know how it could be improved.

In September this year, the annual conference will be held in Alice Springs, which is the first time we've travelled to central Australia for our annual meeting. Allan Van Zyl has been instrumental in securing the

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### MEMBERSHIP APPLICATION FORM

NAME (include title): .....

POSITION: .....

POSTAL ADDRESS: .....

TEL:..... FAX:.....

MOBILE: .....

EMAIL: .....

Do Not send correspondence (newsletters, etc.) from ANZSOC via email.

I wish to become a member of the Australian and New Zealand Society of Criminology. In support of my application, I state that I:

- (a) hold a tertiary qualification in criminology or an allied field, namely: ..... (qualification), or
- (b) hold a responsible position in criminal justice or an allied field, namely: ..... (position), or
- (c) am a student who is pursuing studies that would lead to a qualification in Criminology or an allied field, namely:..... (nature of studies), or
- (d) am a person with a scholarly interest in Criminology, namely:..... (insert details)

In the event of my admission as a member, I agree to be bound by the rules of the Association in force at the time.

Signature of Applicant .....

I, Secretary of the Australian and New Zealand Society of Criminology Inc., nominate the applicant for membership of the Association.

Signature of Secretary .....

**NOTE:** The Rules of the Society are available at <http://www.anzsoc.org/society/rules.html>

• \$20 joining fee and \$80 annual fee for students