

Conning Honest John

# Why do so many people fall for financial scams?

*Fraudsters play on different emotions, from greed to kindness*



Print edition | Finance and economics >

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**I**N HINDSIGHT, DAVID CARTER sees the deal differently. The 63-year-old has a Master's degree in technology. A successful career meant he found a six-figure salary offer perfectly plausible. He knew from reading newspapers that tech stocks were up and the job market was hot. So when an email offered him a job with a Swiss firm at a \$100,000 salary, he took it.

Mr Carter never saw a penny. Instead he owes \$80,000, which he is paying off from his retirement savings. The job was too good to be true. All he had to do was use his credit card to buy iPhones and iPads. He started in June, buying them at Best Buy and Walmart and sending them from his home in Maryland to an address in California. The company paid his credit-card bill—for a few weeks. In July those payments were voided. His bank said the debts were his. The company's website vanished. The people he had spoken to stopped answering the phone.

Researchers at Stanford University's financial-fraud research centre estimate that such "consumer fraud" costs Americans more than \$50bn annually. The baby-boomer generation, with sizeable pension pots and houses that have soared in value, are ripe for plucking. And the scammers have become more

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sophisticated. The Nigerian prince with an unmissable investment opportunity is now too well-known, so they produce mobile apps and dashboards that look like those from investment advisers. They create fake jobs, like Mr Carter's; or profiles on dating sites, which draw in hopeful partners who are then asked for money; or competitions and lotteries, which turn out to need "winners" to pay something to get a prize. And they disguise their phone numbers to make cold calls that appear to be from banks or tax authorities, or to send text messages that will appear in the same threads as genuine messages from financial institutions.

Central to the scammers' trade is a play on emotions, often greed or lust—but sometimes more benevolent urges. According to a paper in the *Journal of Adult Protection* in 2015, some fraud victims were reeled in by their desire to be able to afford gifts for their loved ones. A person who is generally competent but going through a bad patch—a bereavement or job loss, say—may be more susceptible. Police in Britain say they have seen an increase in the sort of "grooming" associated with sexual abuse, with scammers finding their victims online and eventually building up to meeting in person to deepen trust.

Once the losses start, victims may suffer from the "gambler's fallacy"—keeping going and hoping that their luck will turn, rather than facing up to the hit. Some will never accept that they have been had, preferring to believe that their losses are simply investments gone wrong. Many are embarrassed to admit the truth even to themselves. As Marti DeLiema of Stanford University puts it, "people are more willing to talk about their sexual encounters than their experiences with fraud."

Neither education nor a familiarity with finance seem to offer much protection. A report in 2011 by the aarp, a lobby group for the aged, found that people conned into fake investments tended to be more qualified and richer. One reason may be that they overestimate their financial acumen. In a study in 2014, academics at Boston College's Centre for Retirement Research found that those who gave a lot of wrong answers in a financial-literacy test, but said they were sure they had been right, were more likely to be victims of fraud.

Peter Lichtenberg, a psychologist at Wayne State University who was one of the first to examine psychological vulnerability to fraud, argues that prevention and treatment should take their cue from medicine. He points to a technique called "[motivational interviewing](#)", which involves asking questions designed to help people come up with their own solutions and which has been shown to help get alcoholics into treatment. Questions could be crafted to open fraud victims' eyes to what is going on, for example by asking them to explain what is happening in their own words, and then to discuss any similarities with articles they have seen in the press.

Banks generally insist that people who fall for and ultimately consent to frauds must bear their losses. But the growing sophistication and scale of such frauds are starting to prompt a reassessment. Victims of elaborate scams, like Mr Carter, argue that they should be reimbursed by the banks that permitted suspicious transactions. Banks, for their part, are starting to argue that some liability should fall on the internet firms that host fraudsters' websites and enable payments.

In September a group of large banks and consumer-advocacy organizations in Britain published a draft voluntary industry code, saying that victims of "authorised push-payment fraud" should be reimbursed in some circumstances. This scam involves tricking people into arranging payments from their accounts into those of scammers, often by faking messages from the police or tax authorities. When banks and consumers have both taken adequate measures to prevent such fraud, the idea is that customers should be repaid.

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