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Research Director  
Communities, Disability Services and Domestic and Family Violence Prevention  
Committee  
Parliament House  
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Email: [CDSDFVPC@parliament.qld.gov.au](mailto:CDSDFVPC@parliament.qld.gov.au)

**RE: Submission to the Inquiry  
‘The adequacy of existing financial protections for Queensland's seniors’**

Please find attached a submission forwarded for consideration in the Inquiry into ‘The adequacy of existing financial protections for Queensland’s seniors’.

Should you require any further information or clarification regarding this submission, I can be contacted via email [\[REDACTED\]](mailto:)).

Yours sincerely,



Dr Jacqueline Drew  
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TO:

Research Director

Communities, Disability Services and Domestic and Family Violence Prevention Committee

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RE: Inquiry into

‘The adequacy of existing financial protections for Queensland's seniors’

I, Dr Jacqueline M. Drew, currently hold a tenured appointment as a Lecturer, in the School of Criminology and Criminal Justice, Griffith University. The following submission is based on my research expertise in the areas of financial fraud and online advance fee fraud (AFF).

I am currently (with my colleague, Dr Julianne Webster, Griffith University) conducting a research program in conjunction with the Fraud and Cyber Crime Group, Queensland Police Service. This research examines the role of police in impacting on the duration and seriousness of victimisation experienced as a result of AFF. AFF refers to fraud, usually now perpetrated online, that involves an offender using deceit in order to secure a benefit from the victim (usually financial) with the promise of some future ‘pay-off’ for the victim (can be financial – classic ‘Nigerian’ scam, investment fraud; or romantic relationship – romance fraud). For the past number of years I have undertaken and published research focused on financial and investment fraud and of particular relevance to this Inquiry, I have undertaken research on financial literacy and fraud victimisation.

The following submission represents my views and opinions regarding key issues that I believe should be considered when addressing the issue of financial protection of Queensland seniors.

### ***Introduction***

Financial literacy needs to encompass more than a basic grasp of financial skills and knowledge (Huston, 2010). True financial literacy empowers investors to apply knowledge and skills to their own personal financial decisions and importantly, have well-informed choices and result in positive outcomes for their overall financial well-being (Huston, 2010; Australian Securities and Investment Commission (ASIC), 2011).

It is argued that the need for seniors in Australia to have well developed financial literacy skills and knowledge is of growing importance, particularly for the increasing numbers of senior Australians that are choosing to manage their own (often sizable) retirement savings. The numbers and monies held by self-managed superannuation funds (SMSF's) in Australia continues to grow. APRA (2014) reported the number of SMSF's grew by 7.1% during the 2013 financial year with \$506B held in SMSF's. This compares to \$907.1B held in APRA regulated superannuation entities.

The following submission focuses on two key issues

1. ***Financial literacy, victimisation and education.*** The relative levels of financial literacy held by seniors, its relationship with fraud victimisation risk and the need to review financial literacy education curriculum.
2. ***Approach to the allocation of financial literacy resources.*** Development of a methodology to better identify and prioritise groups and/or areas that require urgent attention within the financial literacy context.

### *Financial Literacy, Victimization and Education*

A key issue that I would like to bring to the attention of the Inquiry is the relationship between financial literacy, fraud victimisation and age (refer to my published work: Drew, J.M. & Cross, C. (2013). Fraud and its PREY: Conceptualising social engineering tactics and its impact on financial literacy outcomes. *Journal of Financial Services Marketing*, vol.18(3), 188-198).

It may be assumed by many, that increasing financial literacy levels has a universally positive impact on financial and investment fraud victimisation. Additionally, it could perhaps also be reasonably concluded that it is likely that financial literacy serves as a protective factor to financial and investment frauds. It might be argued that by individuals becoming more knowledgeable, skilled, discriminating and aware of fraudulent schemes, fraud victimisation could be reduced. Some research has confirmed these assumptions (for example, Gamble, Boyle, Yu & Bennett, 2012; Lusardi, 2012) however, a number of researchers have found that financial literacy is in fact associated with elevated levels of fraud victimisation (NASD, 2006; American Association of Retired Persons (AARP), 2007, 2008, 2011; Australian Crime Commission (ACC) and Australian Institute of Criminology (AIC), 2012).

Representing a major challenge to those in the financial literacy context, NASD Investor Education Foundation (now FINRA Investor Education Foundation), stated 'financial literacy programs are necessary but probably not sufficient to prevent fraud' (NASD, 2006, p. 6).

Australian research on the outcomes of Taskforce Galilee found that victims of investment fraud were more financially literate, had previous experience in investments and were on shareholder registers (ACC & AIC, 2012). Important for this Inquiry, has been the consistent finding that older persons who have been victims of financial fraud, compared to those not victimised, are typically more financially literate. Similar conclusions have been drawn by

NASD (2006) and AARP (2007, 2008, 2009). NASD (2006) found that older victims compared to non-victims scored higher on tests of financial literacy knowledge. Greater levels of financial literacy has been correlated with age (ANZ, 2011), and age is in turn often correlated with elevated financial fraud victimisation (NASD, 2006; AARP, 2011).

This type of research provides a basis on which to argue for a re-examination and more detailed consideration of the relationship between financial literacy and fraud, particularly for seniors. This requires analysis of the financial literacy curriculum as currently used and as will be discussed later (refer to later discussion on hot spot approaches to fraud vulnerability), the identification and focus of education efforts on those who are most at risk of victimisation (specifically, Australian seniors).

A number of reasons for the relationship between financial literacy and fraud victimisation have been proposed. The NASD (2006) highlighted the 'knowing-doing gap'. This captures the notion that even though investors may know theoretically how to avoid fraud, they fail to apply this knowledge to protect themselves and avoid fraudulent schemes. Further explanation is the 'expert snare' (NASD, 2006). This involves overconfidence of the investor in their own investment abilities, skills and decisions. Gamble et al (2012, p.3) calculated that 'one standard deviation increase in overconfidence in financial knowledge increases the odds of falling victim to fraud by 38 per cent'. A third explanation provided by NASD (2006) was labelled the 'low persuasion literacy'. Whilst financial literacy increases knowledge and skills in investment, it does not typically address the psychological persuasion tactics used by fraud perpetrators. This explanation calls for financial literacy education to explicitly include education focused on teaching investors to recognise the signs and tactics of fraud perpetrators.

Drawn from social engineering literature (see Drew & Cross, 2013 for a fuller explanation of this approach) Drew and Cross (2013) provide, using the example of boiler room fraud, the key elements of persuasion that may be useful additions to financial literacy education curriculum. Key elements include:

- that investors need to recognise, when they receive a cold call regarding an investment opportunity, that the caller (or offender) has typically already conducted research to determine the particular points of vulnerability for that victim;
- once the relationship between the potential victim and offender has been established, it is more difficult for the potential victim to be objective about the interaction and offers being made;
- continued interactions allow the offender to gather more information about the victim further reinforcing and extending the levers that can be used by them to engage the investor in the fraudulent scheme.

Drew and Cross (2013) provide a number of crime prevention recommendations:

- Increased awareness of the value of their personal information and how this can be used by offenders is needed by investors. This may serve to deter some individuals from providing this type of information without due consideration and as such, act as protective factor in reducing the exposure risk of these individuals to being profiled and targeted by fraud perpetrators;
- Increased awareness regarding the dangers in transferring monies overseas, a tactic often used in financial fraud (ACC and AIC, 2012) is needed by investors. Monies sent offshore as part of an investment reduces the ability of financial institutions, police and/or regulators to recover funds with recovery difficult and highly unlikely (Button, Lewis & Tapley, 2009).

In sum, investors need to actively gain and then apply knowledge of persuasion and social engineering tactics beyond the application of their financial knowledge and skills to protect themselves against fraud. The financial literacy curriculum should consider the use of a general framework that can be used and taught and used by investors to discriminate between approaches used by legitimate and fraudulent investment companies and/or operators (Sagarin, Cialdini, Rice & Serna, 2002). Experiential teaching methodologies should be used to assist investors to adapt their learnings across different situations, given the evolving and ever-changing tactics of fraud offenders.

#### *Approach to the Allocation of Financial Literacy Resources.*

It is proposed that a methodology is needed to better identify and prioritise groups and/or areas that require urgent attention within the financial literacy context. Based on the analysis presented by Drew (2013) it is proposed that a hot spots mapping approach to financial literacy vulnerability needs to be conducted. Drawing from the operational police practice of hot spots policing (refer to Drew, 2013 for a description of this policing approach) it is proposed that proactive identification of groups and/or areas that are likely to be more vulnerable needs to be undertaken. Application of hot spots methodology would significantly contribute to decision making within the financial literacy context. It could be applied, across multiple criteria, to identify and guide decisions on the type and content of financial literacy education that is most needed and importantly, who is most in need of financial literacy education.

The following discussion and analysis is based on my published work as detailed below:

Drew, J.M. (2013). Cold, Warm, Warmer, Hot! Locating Financial Literacy Hot Spots. *Journal of Financial Services Marketing*, 18(3), 220-226.

By way of example, Drew (2013) reviews financial fraud research, to highlight how potential shortcomings of financial literacy education can be exposed through an analysis of financial fraud data. In this operationalisation, it was concluded that analysis of financial product type (product) and specific characteristics of investors (people) reveals that certain products and certain people experience elevated levels of vulnerability. Here, vulnerability is defined as those areas that have experienced comparatively higher levels of concentration of financial fraud cases.

This definition provided the basis on which to conclude that older investors (people), those who report comparatively higher levels of financial literacy (people) and increasing complexity of financial products (product) represent hot spots of fraud vulnerability. This mapping exercise and identification of hot spots was able to reveal, the somewhat counterintuitive finding (as discussed in the previous section), that higher reported levels of financial literacy knowledge is in fact associated with increased financial fraud victimisation risk. The application of this methodology was able to articulate the intersection between age, financial literacy and product complexity. The employment of a methodology, such as that proposed, provides the benefit of uncovering and exposing complex relationships across multiple criteria. In turn, this would lead to better and more informed decisions about those groups that have the most urgent or immediate need for well-developed financial literacy education to be provided.

It is argued that the application of a methodological approach to the identification of vulnerable groups will assist in resolving the classic dilemma of resource allocation decisions, that is getting the right resources (which are scarce), to the right people, at the right time (Drew, 2013).



Drew's (2013) analysis also promoted the utility of using a methodology approach to mapping key aspects of the financial literacy education environment, in this case relevant stakeholders. This approach would provide a more efficient and coordinated systematic approach to financial literacy education context. It is argued that there is a need for better coordination amongst key stakeholders ensuring that the resources (which are inevitably limited) available for the development and delivery of financial literacy education are more efficiently expended. Stakeholder coordination is essential to minimise replication in educational offerings, maximise the reach and impact of education and efficiently share resources.

***Recommendation 1:*** It is recommended that educational offerings designed to impact on the financial literacy of Queensland seniors be revised and reviewed to ensure it provides sufficient focus on investment fraud. Specifically, ensuring that the curriculum goes beyond financial skills and knowledge and explicitly includes education on methods of investment fraud perpetration, in particular persuasion tactics used by fraud offenders.

***Recommendation 2:*** It is recommended that a methodology or analytic approach be developed to guide the resource allocation of financial literacy and educational resources for Queensland seniors. This includes allocation of resources to 'the right resources, the right people, at the right time' and more effective coordination of all stakeholders within the financial literacy context.

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