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Characteristics, Causes and Countermeasures for Victims of Financial Fraud

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Abstract: With the rapid development of Internet technology and the increasing popularity of smart phone applications, the problem of financial fraud has become increasingly prominent, and people of different ages are at risk, which has caused serious impact on society. Victims of financial fraud are usually affected by herd mentality, loss aversion, confirmation bias, etc., while scammers use false publicity to induce investors to make their assets suffer losses. After in-depth analysis of the causes of fraud, this study believes that improving public financial literacy and strengthening financial education become the key to prevent fraud in the whole society. Specifically, college students should deepen their understanding of financial knowledge, and middle-aged and elderly people should improve their awareness of network security and basic knowledge of financial management. Through in-depth research and comprehensive policies, it is expected to build a safe and honest financial environment, ensure the property safety of people of all ages, and promote stable and healthy economic development.

Keywords: Financial fraud, behavioral finance, psychology.

1. Introduction

With the acceleration of the process of global economic integration and the rapid development of science and technology, the economy and society are advancing at an unprecedented speed. However, just as a coin has two sides, this progress has also brought many negative effects, one of which is the frequent occurrence of financial fraud. Financial fraud, as an illegal activity that takes advantage of the loophole of the financial system and people's psychological weakness. It has gradually become a problem that cannot be ignored today.

The prevalence of financial fraud can’t be ignored. With the increasing prosperity of the financial market, various financial products and services emerge endlessly. At the same time, the methods of financial fraud are increasingly diversified and concealed. From the traditional telephone fraud, SMS fraud, to the use of the Internet, big data and other high-tech means of new fraud, financial fraud has penetrated into every corner of people's lives, let people impossible to guard against. Secondly, the social harm caused by financial fraud is very serious. For the victims, they may not only suffer huge economic losses, but also may fall into mental difficulties, and even lead to serious consequences such as family breakdown and social trust crisis. For the whole society, the prevalence of financial

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fraud will destroy the normal order of the financial market, affect the healthy development of the economy, and even threaten the financial security of the country.

It is particularly urgent to conduct in-depth research and analysis on financial fraud. The purpose of this study is to comprehensively discuss financial fraud from three aspects: victim characteristics, causes and preventive measures. First, this paper will analyze the common characteristics of victims of financial fraud, such as herd psychology, loss aversion, confirmation bias, etc. Secondly, analyze why they are easy to be the target of fraudsters from different age stages. Finally, this paper will put forward a series of targeted preventive measures to help people improve their awareness of prevention, reduce the occurrence of financial fraud, and maintain the stability and healthy development of the financial market.

Through in-depth analysis and discussion of financial fraud, people hope to provide theoretical support for relevant departments to formulate more effective anti-fraud policies. Besides, providing practical prevention guidelines for the public to jointly build a safe and honest financial environment.

2. Characteristics of Victims

2.1. Herd Mentality

Herd mentality refers to the phenomenon that individuals give up their own opinions or go against their own views under the influence or pressure of the group. So that their remarks and behaviors remain consistent with the group. For example, in Ponzi schemes, herd mentality is manifested as investors often follow the trend of investment because they see other people (such as relatives, friends, colleagues or opinion leaders on social media) participate in the investment and get the so-called "high return". They ignore the risk assessment and rational analysis of the investment itself [1].

In a Ponzi scheme, fraudsters usually create the illusion that this is a reliable and high-return investment opportunity through false publicity, falsifying investment reports, and other means. When some investors get "returns" through false information, they tend to spread these "good news" to the people around them. It forms information pressure. Under such pressure, other investors may be misled into thinking that this is a trustworthy investment opportunity and thus follow suit.

In social groups, people often expect their behavior to conform to the norms and expectations of the group. In a Ponzi scheme, when more and more people participate in the investment and share the "success" experience, non-participating investors may feel normative pressure from the group to join in. This normative pressure makes investors to ignore risks and blindly follow the trend.

2.2. Loss Aversion

In traditional economic theory, it is often assumed that investors have a balanced aversion to risk. It is equal that they will have equal sensitivity and preference for losses and gains. However, it is found that this theoretical assumption is not completely accurate after in-depth observation of actual investment behavior. In fact, when investors are faced with equal amounts of losses and gains, they tend to feel losses more deeply and unbearably. This phenomenon is known as "loss aversion" [2].

Loss aversion is particularly pronounced in financial markets, especially among victims of financial fraud. In the face of investment losses, these victims often do not want to face the reality and choose to escape or take further actions, such as continuing to hold the loss of investment or additional funds, in order to reverse the situation and recover the loss. This psychological bias makes them easy to fall into the trap of scammers, thus exacerbating the extent of losses.

The emergence of loss aversion is related to human nature. People are often more sensitive to the perception of failure and loss because it is directly related to personal self-esteem and self-worth. In financial investing, investors often associate their decisions and outcomes with personal competence,

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intelligence, and even dignity. As a result, they are less able to withstand the psychological shock of a loss.

2.3. Confirmation Bias

Confirmation bias is an invisible filter in people's minds. It tends to capture and reinforce information that is consistent with their existing beliefs, while quietly excluding information that is inconsistent with their own views. This creates a subjective and limited world of information. When people commit to an investment, it is easier to focus on the reasons for the stock to go up and ignore the potential negative factors in order to confirm their choice. Even though the stock's style is out of step with the market, its price far exceeds its fair valuation. Negative news frequently presages a downward trend in stock prices. People can still be lulled into a self-constructed illusion that stocks will keep going higher. Finally, it incurs avoidable losses.

This confirmation bias stems from blind confidence in investing and unwilling to face and acknowledge possible mistakes in past decisions. In the world of stock investing, short-term gains may be easy to achieve, but the real challenge is how to steadily preserve and realize gains over the long term [2].

3. Reasons for Being Cheated

3.1. College Students

First, the reason why many financial fraud criminals frequently succeed is mainly because they target the group of college students. These college students usually lack in-depth financial professional knowledge, awareness of prevention and financial literacy. Criminals take advantage of these weaknesses to commit fraud through various means. They not only will steal the victim's address book and close its communication function, but also will send false messages to relatives and friends by using the victim's name. Deceiving relatives and friends to transferring money to the victim's bank card by falsely claiming that the victim is in urgent need of cash. In addition, they will also manipulate cash machines, or use online advertising, counterfeit currency and other means to commit fraud. The root of these problems is that people are generally lack of financial literacy. Therefore, students should strengthen the education of financial knowledge for college students, especially those non-financial students in daily life. The occurrence of financial fraud cases can be effectively reduced, and the property safety of college students can be protected by improving their financial literacy and awareness of prevention.

Second, students lack the financial decision-making ability. The dilution of financial decision-making consciousness is an important reason for college students to be vulnerable to financial fraud. At the university stage, students generally devote most of their time and energy to their studies and internships. They are more likely to pursue academic achievement and workplace experience. They often neglect the cultivation and attention of financial decision-making ability. They might believe that smoothly finishing school education and getting a good job can guarantee their financial security in the future. Therefore, the importance of cultivating financial decision-making ability in daily life and study is ignored. Although internship and work experience can provide students with certain career cognition and practical experience, the improvement of financial decision-making ability is relatively limited. In the course of internship and work, students may focus more on learning and mastering professional skills and lack in-depth understanding of financial management and decision-making. At the same time, some companies often do not provide adequate financial education and training opportunities. This makes it difficult for students to form a sane sense of financial decision-making during internship and work. What's more serious, this academic and internship centered lifestyle may further dilute students' awareness of financial decision-making. Students may fall into

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the trap of thinking that if their studies and internships go well, their financial problems will be solved. They will ignore the need to develop financial decision-making skills in their daily lives and studies. This diluted sense of financial decision-making makes college students often lack sufficient vigilance and judgment in the face of financial fraud, which is easy to be used by criminals.

Third, campus loans. At present, the phenomenon of network telecommunications fraud is still rampant, not only in the society is widespread, but also has penetrated the university campus. Many young college students have unfortunately become victims. The reasons why students are exposed to campus loans can be attributed to multiple complex and intertwined factors. At present, many students generally face the dilemma of insufficient personal finance ability and cognition. Due to the lack of systematic money management and financial knowledge, they tend to choose campus loans as a short-term solution when faced with economic pressure. This lack of in-depth understanding and planning of borrowing often leads to students getting into debt at a later stage. Because they fail to fully realize the high interest and potential risks that may be hidden behind campus loans. Social culture and psychological factors also have a profound impact on students' choice of campus loans. The prevalence of fashion and consumerism culture, as well as the influence of peers and social networks, have made college students have a strong desire to buy. To pursue fashion and meet social needs, some students may choose to meet these consumption needs through campus loans, even if it means they will have high repayment pressure. At the same time, high self-esteem, comparison psychology and anxiety, depression and other emotional problems caused by economic pressure also further aggravate students' dependence on campus loans. These students may be more susceptible to the temptation of campus loans to temporarily relieve their psychological pressure and material needs by borrowing money. In addition, campus loan institutions have further increased students' understanding and trust in campus loans through active marketing and publicity. By setting up promotional booths on campus, holding information sessions, and cooperating with student associations, these institutions make more students exposed to campus loans, and may thus generate borrowing behaviors. This market environment also provides more possibilities for students to choose campus loans [3].

3.2. Middle-aged People

First, middle-aged people are often in the family environment between the old and the young so the family economic pressure is greater. Faced with high expenses such as children's education and the elder's medical care, they may have a more urgent need to increase their income. This pressing need may make them more susceptible to financial scam messages such as "get rich quick" or "big returns." In the situation of huge family economic pressure, middle-aged people may have a risk psychology, hoping to alleviate the financial pressure through some high-risk but may bring high return investment.

Second, they are overconfidence. Overconfidence is a state in which a person is overly confident in his or her abilities, knowledge, or judgment, beyond the actual situation or level of reality. Middle-aged people may have overconfidence in their ability to make financial decisions because of their age and experience [4]. They may believe that they have enough experience to accurately judge investment opportunities and risks. Then they always ignore potential risks and uncertainties. Overconfident middle-aged people often neglect the vigilance of financial fraud and turn a blind eye to potential risks. They may take the promises of strangers at face value or invest blindly without fully understanding the investment product. This attitude of ignoring risks makes them more vulnerable to financial fraud. In the face of financial fraud, overconfident middle-aged people may lack adequate coping skills and strategies. They may not seek timely professional counseling or call the police for help. Instead, they choose to deal with it themselves or delay time. Then they miss the best time to deal with it.

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3.3. The Elderly

First, with age, older people's cognitive abilities, memory and attention gradually decline, which becomes a major challenge when they face complex financial information and fraud methods [5]. As these abilities decline, older adults have more difficulty assessing risk, identifying truth and falsehoods, and making informed decisions. They are more likely to be misled by false advertisements because they may not fully understand the true intention and potential risks behind the advertisements [6]. At the same time, the elderly may also face social disconnection. With the rapid development of modern society, financial products and fraud methods are changing with each passing day, but the elderly may not be able to understand and master these new information and knowledge in time due to the restrictions of age and social circles. This disconnect not only makes it difficult for them to adapt to changes in financial markets, but it can also lead to a lack of necessary vigilance and responsiveness in the face of financial scams. Social disconnection also further exacerbates elder people's feelings of isolation and vulnerability. They may lack the care and support from their families and communities, which makes them even more helpless when they face the financial fraud.

Second, although elder adults score for financial literacy in the relatively high range, their actual level of financial literacy is still considered to be low [7]. This finding reveals an important fact: age and experience alone are not enough to significantly improve an individual's financial literacy. To understand this phenomenon more fully, the study further investigated the financial literacy of young people aged 18 to 34, as well as their financial behavior. This finding suggests that improving financial literacy, regardless of age, requires conscious effort and education. Many elderly people have not received financial education and lack understanding of financial products and financial risks. They may not know how to assess investment risk, how to choose the right financial products, and how to keep their assets safe. The elderly often lack understanding of financial fraud methods and are unable to identify false advertising and scam calls. They may take the promises of strangers at face value or invest blindly without fully understanding the investment product. In addition, the elderly often lack financial awareness, do not know how to allocate assets properly, and tend to put all their assets in low-risk bank savings, while ignoring other investment opportunities that may bring higher returns [8].

4. Preventive Measures

4.1. College Students

To effectively prevent and reduce the infringement of college students by financial fraud, it is necessary to construct a comprehensive and scientific prevention system from many aspects. First of all, it can improve college students' financial literacy and anti-fraud awareness and create a strong anti-fraud atmosphere through the continuous popularization and publicity of anti-fraud knowledge. Secondly, colleges should integrate internal resources, build a multi-level and all-round prevention system including departments, classes and dormitories, and ensure that anti-fraud knowledge can go deep into every student. Moreover, in order to meet the reasonable consumption needs of college students, colleges can introduce formal financial loan services in conjunction with banks to reduce the risk of illegal campus loans. Finally, colleges and universities should join forces with multiple subjects such as public security, bank supervision system and parents to build a three-dimensional financial anti-fraud system with multiple subjects, jointly supervise students' financial behaviors, and timely discover and stop financial fraud. The implementation of these measures will help create a healthy and safe campus environment and protect the property safety of college students.

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4.2. Middle-aged People

Middle-aged people should be aware of the risks of data breaches in the online environment and learn to identify potential threats [9]. On social platforms, middle-aged people should avoid randomly clicking on links of unknown origin or downloading unverified files to reduce the risk of personal information disclosure. When posting personal information on social platforms, middle-aged people should carefully choose public or private Settings to avoid exposing sensitive information such as ID number and bank card number to strangers. At the same time, check and update account security settings regularly to ensure account security. Middle-aged people should use complex and unique passwords to protect their accounts and avoid simple or easy to guess passwords. In addition, using password management tools can help them better manage passwords for multiple accounts and improve account security. Middle-aged people should learn to recognize the characteristics of phishing and fraud messages, such as fake emails or phone calls from banks, e-commerce and other institutions which requests for personal information or requests for money transfers. When encounter suspicious information, should be vigilant and check with official agencies in a timely manner.

4.3. The Elderly

The elderly need to understand basic financial knowledge, including financial products, investment risks, and common means of financial fraud. This helps them identify and avoid potential financial fraud risks. The elderly should learn how to manage their money and make pension plans, including how to evaluate investment risks, how to choose the right financial products, and how to protect their property safety. Improving their financial management ability and making pension plans enables them to better manage their wealth and avoid being used by criminals [10].

The elderly can participate in financial knowledge lectures organized by community organizations, learn about the latest financial policies and market dynamics, and improve their financial literacy. They can seek the advice of professional financial institutions or consultants to understand the investment products and financial management methods suitable for them to avoid being used by criminals.

The elderly ‘s children should pay attention to the financial activities of the elderly to help them identify and avoid the risk of financial fraud. At the same time, it is also necessary to care about the spiritual needs of the elderly, so that they do not trust strangers because of loneliness or lack of care. Family members can learn financial knowledge together to improve the financial literacy and risk prevention awareness of the whole family.

5. Conclusion

At present, the situation of financial fraud is very serious, and it is urgent to strengthen the awareness of prevention of all ages. College students should further deepen their understanding of financial knowledge. Middle-aged people need to enhance their awareness of network security. For the elderly, basic knowledge of financial management needs to be widely popularized. To ensure the comprehensive construction of this prevention system, the popularization of knowledge and the effective integration of resources are particularly important. In addition, regulators should strengthen joint actions to combat financial fraud. At the same time, family care also plays an indispensable role in preventing financial fraud. Only by working all these together can build a safe and honest financial environment to promote stable and healthy economic development.

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