



# Mind over money

## Summary

- Scammers use psychological tricks, such as getting a foot in the door and pretending social similarity, to convince people to part with their money.
- Anyone can fall for a scam, but particularly the vulnerable and overconfident.
- The emotional impacts of falling for a scam can be devastating, ranging from shame and anxiety to suicidal thoughts.
- The industry can also utilise psychological tactics to help protect people from scams.

In the fight against pension scams, the type of cons employed by the criminals to convince people to hand over their money are ever-evolving.

## In the latest in *Pensions Age's* scams focus, Laura Blows explores the psychological tricks used by scammers and the emotional impact of victims falling for such techniques

However, one consistent weapon in their arsenal is the use of psychological techniques to lower their victims' guard and gain their trust.

As The Pensions Regulator (TPR) states in its strategy to combat pension scams, "scammers use psychological deception and professional-looking materials to trick people out of their savings".

### Psychological tricks

In terms of the tricks used by the scammers, the key advantage they have is the opportunity to build a rapport with their victim and gain their trust,

Pension Scams Industry Group deputy chair, Tommy Burns, says.

He explains: "A pension scheme member may have very limited engagement with their existing pension provider, particularly if the pension is not from their current employer. Often the only communication that members receive is their annual pension statement and even these statements can be difficult for someone unfamiliar with pensions to understand."

Typically, scammers make initial contact with individuals via cold call or text but there are also instances where the scammer is known to the victim,

Dalriada Trustees accredited professional trustee, Sean Browes, says.

“Once the scammers have identified individuals who may be interested in transferring their pensions, they generally work hard to build a rapport with the members. Through phone calls, emails and home visits, the scammers will discuss the specifics of joining the scheme and guide members through the transfer process out of their current scheme,” he explains.

“A variety of techniques will be employed, such as fabricated examples of their own family members joining the scheme, and understanding and playing on the existing vulnerabilities of victims.

“Scammers tap into the victims’ needs and wants. For example, those who are in need of cash at the time will be promised early, even immediate, access to their pension. If the need for money is not so pressing the scammers will imply or say outright that their current pension plans are no good and that their current providers are doing them a disservice.

“Victims are also encouraged by the personal service that they receive, which helps to build trust. Scammers will go to great lengths to alleviate any concerns that are raised to help convince individuals to complete the transfer of their hard-earned pensions.”

To understand the psychological skills used by scammers, in 2019 the Financial Conduct Authority (FCA) worked with psychologist, Honey Lancaster-James.

“Scammers employ clever techniques, such as seeking to establish ‘social similarity’ by faking empathy and a friendly rapport with their victims. They can win your trust in a short space of time and by engaging with them you leave yourself vulnerable to losing a lot of money very quickly. People need to know how to spot the signs of a scam so they don’t fall for psychological tricks,” Lancaster-James said at the time.

That same year, she highlighted to *This is Money* five psychological techniques scammers use to convince

people to hand over their pension savings.

These are the ‘foot-in-the-door’ technique, whereby they get the victim to agree to something small initially, such as a phone conversation, to then convince the victim to agree to more requests.

Another method is ‘social similarity’ to quickly gain trust and establish a friendly rapport. “Psychologically, we are far more likely to trust people who

### **“The key advantage [scammers] have is the opportunity to build a rapport with their victim and to gain their trust”**

we see as being like us in some way and sharing similar thoughts and feelings,” she explained.

Scammers may also emphasise ‘scarcity’ by using language that is designed to make the victim feel anxious, hurried and fearful of missing out. This may be disguised as trying to ‘help’, while actually creating anxiety, so the person agrees to the scam without thoroughly considering it first.

Another technique is the ‘halo effect’, where the criminals use authoritative or complicated sounding language to seem like a trusted authority with legitimate and credible ability.

Finally, scammers deliberately play with and even break the unwritten rules about social interaction, Lancaster-James stated.

“For example, they might call you up and ask if you’ve been having a nice day so far, and the cognitive schema we have about such a social interaction kicks in and leads you to respond in a ‘normal’ human way by saying ‘yes, thank you’ politely.

“They are counting on the fact that you will most likely observe the normal, polite, rules of society, when in fact,

the best thing you can do is put the phone down and not respond at all,” she explained.

#### **All at risk**

This manipulation of standard human behaviour means anyone can be at risk of falling for scams.

For instance, in November 2019, the joint TPR and FCA campaign, ScamSmart, revealed that the more highly educated people are, the more likely they are to fall for a pension scam. Those with a university degree are 40 per cent more likely to accept a free pension review from a company they’ve not dealt with before, and 21 per cent more likely to take up the offer of early access to their pension pot, it stated.

Overconfidence may be a factor in those statistics. In July 2021, FCA research found that despite 68 per cent of pension holders claiming they were confident they could spot the signs of a pensions scam, only 28 per cent of pension holders realised that a free pension review was a sign of a scam, and just 40 per cent knew to be wary of opportunities to transfer their pension.

Those suffering financial or emotional desperation can also be more vulnerable to scams, which, in the current cost-of-living crisis, is an increasing number of people.

Isio head of pensions administration, Girish Menezes, puts it simply: “Scamsters take advantage of vulnerable people through preying on their insecurity and desperation”.

“Fraudsters will look to target the vulnerable and with the cost-of-living increases, global uncertainty and stock market volatility, it is no surprise that we see their continued activity in the pensions arena, especially when one considers the sums of money which are held within pensions savings,” Burns says.

Scottish Widows senior corporate pension specialist, Robert Cochran, notes that “incidents of pension scams are on the sharp incline, with scammers

increasingly using factors such as the rising cost in living and loneliness to take advantage, with 13 per cent people revealing they've been targeted recently”.

### Emotional impact

The impact of falling for scammers' psychological tricks is not just financial harm. According to the European Commission's January 2020 survey on scams and fraud experienced by consumers, 79 per cent suffered some form of emotional harm as a result of the scam or fraud they experienced. This included irritation (68 per cent), anger (56 per cent), stress (30 per cent) and embarrassment (16 per cent).

The survey found that most people who experienced scams or fraud (57 per cent) suffered 'only' emotional or physical harm. A further 22 per cent suffered financial and emotional or physical harm. Perhaps unsurprisingly, just 1 per cent only experienced financial harm, “which shows that financial harm goes hand in hand with emotional and physical detriment”.

These figures echo *Which?*'s March 2021 research, which found victims suffer personal harm from fraud regardless of whether they lost money or were reimbursed.

Action Fraud data, shared with *Which?*, identified 300-350 fraud reports a week where victims show signs of severe emotional distress – equalling up to 18,000 reports a year.

However, it is difficult to accurately know the full extent – financial or otherwise – of pension scams.

While the average loss in 2021 was £50,949, according to complaints filed with Action Fraud, victims of pensions scams are reluctant to report that they have been scammed or do not realise they have been scammed until years later, so the total amount lost may be much higher, the FCA stated in July 2021.

The Money and Mental Health Policy Institute, writing in December 2020, noted that “many victims [of scams] feel

embarrassed and ashamed, often blaming themselves, which can have a lasting impact on their confidence using the internet”.

As Financial Services Compensation Scheme chief communications officer, Lila Pleban, says: “Not only have they lost their hard-earned savings, but the anxiety and stress of having been deceived or putting their trust in the wrong person can pose a significant detriment to a person's wellbeing”.

In addition to the fear and stress of how they will provide for their retirement, victims feel angry, betrayed and in some cases, foolish for falling victim to a scam, Browes says.

“The tendency to blame themselves is a natural reaction, but obviously

misplaced, as these people were (and are) victims of an intricate and dedicated deception,” he adds.

“This can lead to members not telling anyone about what has happened and even isolating themselves. At the other end of the spectrum, the scam can take over victims' lives. They contact everyone they can, from the trustees appointed by TPR to their MPs, to local and national media and make it their mission to bring the perpetrators to justice. This is also a perfectly natural reaction. Both responses can lead to victims ending up in bad health, particularly bad mental health. It can also lead to them using whatever funds they have and selling their assets, including their homes, to deal with the financial issues they face as a result of



the scammers' actions... Quite simply, the scammers take a lot more than just money from their victims."

The consequences of falling victim to a pension scam can be absolutely devastating and victims are racked with guilt when they realise what they have done, Burns says. "Sadly, many have indeed faced financial ruin with no other savings in retirement to fall back on. Some victims have taken their own lives."

Browes also highlights the "shattering impact" of scams. He says: "Members have reported that the additional stress of falling victim to the scam has had a massive and devastating impact on their lives, such as the breakdown of marriages, families being torn apart, victims needing to return to work and/or retire later, an inability to work due to the impact the scam has had on their mental health, and in some extreme but sadly not uncommon instances, feeling suicidal."

Champion Health's *Financial wellbeing statistics UK 2023* finds this to be the case, stating that employees experiencing financial stress are twice as likely to experience thoughts of suicide or self-harm.

*Which?* noted that Action Fraud received 241 phone calls between January and November 2020 where a 'threat to life' was flagged, meaning call operatives must attempt to keep callers talking until police or an ambulance crew arrive.

Also, the emotional impact of scams can be exacerbated when the victim is elderly.

According to Cochran, pensioners between the ages of 65 and 74 are the most likely age group to be scammed into sending money to fraudsters, with the number of cases in this age bracket rising by almost 75 per cent year on year, "posing a huge threat to their now accessible retirement savings, and ultimately the security of their immediate future".

As the FCA noted in November 2019, "victims can be left facing retirement

with limited income, and little or no opportunity to build their years of savings back up", highlighting that it would take someone an average of 22 years to build up the average pension pot lost to scams [*in 2018*] of £82,000.

"Pension scams take various forms, all of which can result in people losing significant amounts of money or even their life savings, often at a point when they would have been thinking about retiring or have recently done so," Age UK charity director, Caroline Abrahams, says.

"This can be financially and emotionally devastating, leading to changes in retirement plans or a deterioration in overall standard of living. Arguably even worse, falling victim to a scam can lead to a loss in self-confidence, and a feeling of shame that can stay with people for years."

A *Psychology Today* article, from January 2021, noted that "a senior's feelings of betrayal, bitterness, and shame can also translate into changes in attitudes, which in turn impact their relationships. They may be less trusting of people in general, but more specifically friends, family members, and institutions. This distrust leads to isolation and a loss of relationships, which in turn leads to a lower quality of life... While most younger people could expect to eventually recover from these impacts, older adults have different time horizons, so any effects will have a greater sense of permanency for them".

### Action

It is clearly vital that the fight against pension scams tackle the emotional, as well as the financial, consequences of these crimes.

And, just as the fraudsters use psychological tricks for its goals, so too can these be used by those fighting against the scammers.

Taking this approach is Lloyds Bank, which in 2020 signed Harvard psychologist, Maria Konnikova, to help

tackle fraud.

Speaking to *This is Money* at the time, Lloyds Bank director of fraud, Paul Davis, said: "Quite often the solutions we've been throwing at the problem tend to be technological.

"But this fraud has a very human element to it, and you can have the best systems to detect unusual payments in the world, but unless you have a high-quality conversation with the customer, which actually takes account of their mental state while they're being scammed, you might as well turn them off."

Konnikova stated that when people are emotional, they are less able to spot logical flaws in arguments and red flags, so the aim is to have them "take a step back, realise no matter what type of con it is, that nothing has to be instantaneous".

When speaking to a potential scam victim, "you want to make sure nothing sounds like a script, that it sounds personal, and you need to treat victims as people", she added.

To that end, the FCA in July 2021 compared making financial decisions to taking advice from people down the pub.

Its research showed pension holders were nine times more likely to accept advice from someone online than they would from a stranger met in person. They are five times as likely to be interested in a free pension review from a stranger online than someone in their local pub.

"The way people make decisions is naturally affected by their environment and scammers take advantage of this. We are urging anyone saving for retirement to 'flip the context' and imagine what they would do if they received pension advice from a stranger while enjoying a quiet pint in their local, or out shopping with friends... 'Flipping the context' by putting these signs in an everyday, offline setting makes pension scams easier to spot and avoid," the FCA stated.

 **Written by Laura Blows**