

## Elder Fraud: An American-Korean Comparison

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### Introduction

Both the United States and Korea are “aging societies” (Senior Journal, 1 March 2002). In 2000 Americans 65 or older were 12.4% of the U.S. population (U.S. Department of Health and Human Services, 2001). By 2030 the aged population in the U.S. is estimated to be 19.7% of the American population. In Korea the elderly were 7.1% of the Korean population in 2000 (Chosun Daily, 19 June 2002) which is expected to grow to about 20% of the Korean population by 2028. As the older population increases, consumer problems related to the elderly become more numerous. Elderly consumers tend to be disadvantaged in market place due to their physical, psychological, and social limitations. Decision-making tends to become increasingly important as people age, while decision-making capacity tends to decrease as they age (Finucane et al., 2002). This makes the elderly particularly vulnerable to fraud.

### Factors Contributing to Elder Susceptibility to Fraud

#### Social Isolation

Baarsen et al. (1999) found that the loneliness resulting from emotional isolation increased as people grew older. Moschis (1994:296) stated, “when people are isolated, their beliefs tend to be influenced by those agents immediately available, such as television”. He suggested that social isolation increases susceptibility because those who are isolated do not have a way to validate consumer information nor do they have meaningful standards against which to compare information. On the other hand, social integration increased awareness of unfair marketing practices and complaints about non-satisfying consumer experiences among the elderly (Moschis, 1992).

#### Cognitive Ability

The elderly tend to have poorer decision-making and judgment abilities since brain damage and loss of cognitive ability occurs as people age (Sanfey & Hastie, 2000). As people get older, they experience decreased information processing and problem-solving skills due to decline in memory capacity, reasoning/evaluation skills, and cognitive flexibility (Gaeth & Heath, 1987; Guilford, 1969; Zwahr et al., 1999).

### Cultural Differences between the U.S and Korea

Reference groups may be more important for elderly Korean consumers than for elderly American consumers because of cultural value differences. Individualism/collectivism is frequently cited as a contrasting cultural trait between Eastern and Western cultures. Koreans exhibit collectivism while Americans exhibit individualism (Cho et al., 1999; Hofstede, 2001). This suggests the opinions of others may affect decision-making for Korean elderly more so than for American elderly due to older Koreans’ stronger motive to conform to social norms.

### Elder Fraud in Korea

Consumer complaints by Korean elderly increased from 1.7% of all consumer complaints in 1995 to 3.1% in 2000. A survey conducted by the Korean Consumer Protection Board (1999) reported that 75% of the elder respondents experienced consumer fraud once or twice, 16% of the respondents were victimized by fraudulent business practices 3-4 times, and 4% of the respondents experienced more than 11 instances of consumer fraud. Free gift offers, seminars or lectures, free senior tours, and free entertainment for seniors were the most common types of elder fraud in Korea.

Free Gift Offer. The elderly are convinced to purchase over-priced goods by offering cheap, free gifts. Sometimes swindlers give goods to the elderly as free gifts and then request payment for the “free” gift a few days later. About 32% of elder fraud victims agreed to receive goods because they thought that it was a free offer.

Seminars or Lectures. The seminar/lecture typically relates topics of interest to older people, such as health or traditional culture with famous or socially respected people presenting the lecture/seminar. After the lecture, the elderly may be forced to buy goods associated with the lecture they attended. Other times the elderly are given free books or goods related to the lecture are asked to provide address to be included in a yearbook. A few days later, the elderly person receives a bill for the “free” books.

Senior Tours. Seniors are offered a free trip a famous travel site. At the travel site or on the way home in a tour bus, they are forced to purchase over-priced goods.

### **Elder Fraud in the U.S.**

Telemarketing scams are one of the most frequent types of fraud directed toward American elderly. The three telemarketing fraud types often directed toward the elderly are sweepstakes and prize offers, credit card loss protection plans and magazine sales. The con artists call the elderly and present various types of deceptive offers. The victim is told they have won a sweepstakes or are convinced to enter a sweepstakes. Also, they are made offers for free products or travel, which usually require “some money” to actually receive (AARP, 2002; O’Block et al., 1991). Scammers, targeting consumers with credit problems, guarantee a credit card regardless of credit history for an advance payment. Generally a consumer pays the fee and receives no credit card.

Home repair swindles are another type of fraud directed toward the elderly. The traditional approach is to tell an elderly person that something needs to be fixed on the driveway or roof. The scam artist then indicates he/she can fix it at low price with the leftover materials. The repair is usually done in a faulty manner or not done at all.

### **Between Country Comparison**

Non-retailing shopping is a common source of elder fraud in both countries. This occurs mainly through individual contact in the U.S. via telemarketing or door-to-door sales. Unlike American elder frauds, Korean elder frauds typically occur through group-sales, such as seminars, senior tours, and entertainment frauds. This difference may be due to different cultural values—individualism versus collectivism. Reference groups appear to play a greater role for Korean elderly than for their American counterparts, and Korean swindlers take advantage of this fact. The Korean elderly may purchase goods through these group activities because other elderly also purchase goods. Collectivism in Korea also leads to elder fraud creating family conflicts since many Korean elderly live with children on whom they rely for financial support. More than 55% of elder fraud victims experienced family conflicts (Korea Consumer Protection Board, 1999).

Fraud items are also different between the two countries. While sweepstakes are a frequent item for American elder fraud, health related products are frequent items for Korean elder fraud. Korean elderly often rely on folk medicine since they are familiar with them and tend to believe in their effectiveness more so than their American counterparts.

Another elder fraud difference between the U.S. and Korea is that “lure-fraud sales” (free gift, free seminar, free travel, free entertainment) are prevalent in Korea unlike the U.S. This could be due to a greater need for reciprocation by Koreans than Americans, leading swindlers take advantage of elderly consumers’ naïveté by using lure-fraud sales in Korea. Most elder fraud victims were forced to purchase products after receiving free goods or entertainment. The Korean elderly may be uncomfortable with canceling a purchase or making complaints.

### **Discussion**

The increasing incidence of elder fraud suggests a need for consumer protection programs directed toward the elderly. General consumer protection laws protect all consumers, including elderly consumers. In addition to the general protection afforded consumers, Congress has passed specific legislation directed toward the elderly. The Senior Citizens Against Marketing Scams Act passed in 1994 (18 U.S.C. § 2326) allows federal courts to impose an additional term of up to five years' imprisonment where a mail, wire, or bank fraud offense was committed in connection with the conduct of telemarketing. In addition the court can impose an additional term of imprisonment of up to ten years' imprisonment if the offense targeted persons 55 and older or victimized ten or more persons 55 and older. A very different act recognized the importance of elder fraud. The Protecting Seniors from Fraud Act authorized appropriations, and the evaluation of such programs, for state Triad programs addressing elder fraud. The law also required the Secretary of Health and Human Services to provide a means to disseminate information to educate older people and to raise their awareness about fraudulent telemarketing and sweepstakes in each state.

Korean elderly consumers are also protected laws and regulations applicable to all consumers; however, there is no special protection for the elderly.

While there is legislation directed toward the elderly in the U.S., elderly fraud victims are not decreasing. It is time to consider the effectiveness of existing law. Since being aware of types of fraud is critical to avoid victimization, more effective consumer education is needed to protect elderly consumers. Unlike the U.S., Korea does not have special protection for elderly consumers regardless of increasing elderly population and fraud incidences. It is time to consider creating special legislation directed toward the elderly in Korea.

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## Endnotes

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