

Fraud Detection and Financial Literacy

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Abstract

This article studies the importance of financial literacy for detecting fraud incidences in personal financial accounts; specifically focusing on financial knowledge and financial behavior. Individuals with greater financial knowledge have a significantly higher propensity to detect fraud. This suggests that financial knowledge strengthens attention to fraudulent schemes and thus empowers individuals to take necessary steps in detecting and deterring fraud. Accordingly, financial knowledge becomes less effective in fraud detection when the individual subjective well-being deteriorates, effectively reducing attention capacities. Further, individuals participating in the informal financial services sector detect more fraud, perhaps due to greater fraud incidences in the sector. Interestingly, prudent financial behavior, relating to careful money management, has negligible effects on fraud detection. The paper draws policy implications for consumer education programs that enhance financial knowledge, enabling fraud detection and deterrence.

Keywords: financial fraud, financial literacy, financial knowledge, financial behavior, financial inclusion, consumer inattention, subjective well-being

JEL Classification: D14, D18, D91.