Corporate harm and victimisation: The case of Farepak

Basia Spalek outlines research exploring the impact of the collapse of the Farepak Christmas hamper scheme, highlighting the serious consequences of corporate crime and harmful behaviour by financial organisations.

In October 2006, Farepak, a Swindon-based company in the UK, collapsed, affecting an estimated 150,000 people who had saved with, and/or worked for, the company. Farepak had run a Christmas club and hamper business since 1968, and so was used by its customers as a way of saving up for Christmas. According to media accounts, Farepak customers lost up to £50 million in the collapse, each losing on average £400, although some people lost as much as £2000 and even more.

The case of Farepak is symptomatic of the social harms perpetuated under the current economic climate of deregulation and the liberalisation of markets, where there are many sites of trust that can be potentially exploited by unscrupulous or unethical organisations. Other recent scandals involving tens of thousands of victims include First Money Transfer Solutions, Enron, Worldcom, the decimation of company pension schemes in the UK, as well as older, high profile, cases such as Maxwell and BCCI. More recently, the crisis hitting Northern Rock as a result of the credit crunch within the financial markets has highlighted the instability of a system that has allowed US mortgage companies to make hundreds of billions of dollars of inappropriate loans to individuals with poor credit histories, and for these debts to then be packaged up and sold to financial institutions around the world.

Victims' accounts illustrate the devastating consequences of the harmful behaviour by financial organisations, including financial crime. However, traditionally, their experiences and needs have been marginalised by policy makers and victim support services. Interestingly, a National Fraud Reporting Centre in the City of London police service has recently been established, offering a listening service to victims, where victims can also ask questions about what resources are available to help them, and where victims can also ask about the progress of any investigations that are being conducted. Nonetheless, the Farepak scandal provides a number of important insights into the process of victimisation regarding corporate harm, suggesting that providing substantive support to victims here is an extremely resource-rich undertaking, thereby raising a more fundamental question about whether regulation should be more proactive than is currently the case so that fewer victims are created.

In total, 16 Farepak customers/agents were interviewed at length between August 2007 and September 2007 to explore the consequences of the Farepak collapse on individuals' lives. Research participants living in Glasgow, Barnsley, Glamorgan and Gateshead were interviewed (Spalek and King, 2007). Household yearly incomes ranged from £13,000 through to £60,000, occupations included customer services manager in Housing Services, nursing assistant, nurses, receptionist, housing benefit officer, administrator, and janitor. Research participants were all female and included single mothers. The interviews were recorded and then transcribed. Thematic analysis was used as a way of analysing the data.

Emotional effects of the Farepak scandal included anger, anxiety, and depression, and psychological consequences included a loss of trust in Christmas savings schemes. These impacts were recurring, an insidious feature of individuals' everyday lives rather than a one-off event that individuals could forget about:

> Well they're (negative emotions) ongoing, I mean you kind of forget about it don't you? But then I think it all comes back and yes you are angry, more so because we've heard no more about it.

The effects of Farepak were compounded by the wider context to people's lives; in some cases Farepak victims were already coping with a number of stress factors in their lives prior to the scandal, and so the scandal compounded these further. Furthermore, as a result of the localised nature of Farepak, many members of the same families were involved, and indeed, certain workplaces contained large numbers of affected individuals:

> it was like a wave through the hospital, because our colleagues worked on nights and we were hearing how many people had lost, and even the night sister who actually did the hampers had lost £1500, and then she had sort of, she had some animosity from some of the staff which I think was sad.

The financial effects of Farepak included being forced into a vicious 'cycle of debt' whereby customers and agents were having to draw upon savings to make up the shortfall, and borrowing from family members or from banks and credit card companies, or working longer

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hours, in order to pay for Christmas expenses. Importantly, the Farepak case highlights the difficulties involved in addressing the financial harms that victims experience. As a result of the often large cumulative effect of financial harms, any collective resources that are built up are likely to be of little assistance. A Farepak Relief Fund was put together in the aftermath of the scandal, totalling £7 million; however, it is estimated that this meant that victims only received 15p paid back for every £1 lost.

Victims' demands also included a request for Farepak directors to be held accountable, for justice to be seen to be done:

> I think the bosses of Farepak need to be made accountable and go down the legal system for what they have done. I don't think they should be allowed to ever do business again with the general public, and I think they should be punished through the justice system for what they have done, because with effect, they have stolen 150,000 members' monies and they should not be swept under the carpet, they should be made accountable for what they have done, but that's how I feel about it.

Similar to other cases of corporate harm, it appears that victims were demanding that regulation should generally be more proactive. This was matched by broader criticisms of the regulatory system for being reactive to financial scandals rather than proactively preventing them from occurring in the first instance, despite policy documents suggesting that regulators are switching resources from a reactive post-event action towards front-end intervention.

Services for victims have traditionally developed out of a 'conventional victimology', in which harm has been conceptualised as consisting of a single criminal event involving an individual victim, being committed by an individual offender (Mawby and Walklate, 1994).

The Farepak case study illustrates that responding to the needs of victims of corporate crime/unethical harmful behaviour is particularly problematic. Farepak highlights a number of important issues when considering offering the victims of corporate harm support for their plight, issues which currently have particular policy relevancy when considering the recent emergence of the National Fraud Reporting Centre within the City of London police. First, Farepak illustrates the scale of devastation that a single case of corporate harmful behaviour can cause, since the collapse of Farepak directly affected tens of thousands of individuals: customers, agents as well as their families. To fully compensate individuals for their financial losses is a significant undertaking; indeed one year after the collapse of Farepak, victims were still waiting for full monetary compensation. This case lies in stark contrast to the case of Northern Rock, where the Bank of England gave emergency financial support totalling about £22 billion so as to maintain consumer confidence in this financial institution. At the same time, investigating cases of fraud can be complex, spanning a number of years, so keeping victims up to date with developments regarding their case is problematic. Moreover, victims' demands for justice in terms of finding those responsible for their plight may be unmet, as often it is difficult to identify particular individuals to prosecute in cases of corporate harm. It is also important to stress that although there may be similarities between victims in terms of the process of victimisation, the case of Farepak illustrates that each individual victim occupies a unique position, in that each individual's circumstances will be different according to factors like their family circumstances, their financial position, and the kinds of support mechanisms that victims can draw upon for help. Therefore, following a case of financial scandal, responding sensitively to individuals' needs, and catering victim services so that they are able to respond to individuals' specific needs, can be problematic.

Given that responding adequately to victims' experiences is such a difficult and resource-rich undertaking, a key policy issue that might be raised here is that the financial system requires more proactive regulation than currently exists, so that fewer victims are created.

An ethos of deregulation and freemarket competition has underpinned the UK financial system. Importantly, individual savers'/investors' responsibilities as active citizens include that they should avoid becoming the victims of financial crime and/or abuses of trust. As a way of managing the risks associated with a deregulated financial system, a key policy strategy to have emerged has been to create confident and knowledgeable consumers, who are aware of the risks that various financial schemes run and who therefore can act to avoid becoming the victims of financial deviance.

The Farepak scandal raises some serious questions about the knowledgeable consumer model. The knowledgeable consumer model appears to adopt a view of the consumer as a rational being, who will assess potential risks and ask appropriate questions to gather information, and that this in turn will be translated into a rational decision-making process. However, interview data from Farepak victims suggest that individuals initially joined the scheme through, or with, friends, relatives, or work colleagues. Importantly, as the interviewees were all women, it may be that individuals' narratives of why they saved with Farepak, the nature of their trust in Farepak, and the particular savings strategies that they utilise, reflect gendered experiences, namely how women go about saving money. At the same time, it may be that particular cases of financial harm disproportionately affect women, and so responses to the process of victimisation may need to take into consideration gender differences (Szockyj and Frank, 1996). The knowledgeable consumer model also fails to take into account that companies take advantage of the local social bonds of trust developed between individuals. It seems that in the case of Farepak, the company wrote to their customers early in 2006, following the collapse of Choice vouchers, assuring them that their money was safe. Therefore, Farepak customers were led to believe that they could continue paying into this particular savings scheme, believing that their money was safe. A final point to make here is that victims of Farepak included agents who were working on behalf of the company, collecting money from customers. This case has similarities with other cases where employees find that they are working for a fraudulent and/or unethical company, and find that there is nothing that they could have done to avoid their predicament.

As illustrated by Farepak, the effects of corporate crime/harmful behaviour are extensive, multifaceted, requiring significant victim services to respond adequately to victims' needs. A key policy question that Farepak raises, therefore, is if financial harm affects so many thousands of individuals, involving complex and diverse effects, how might resources be targeted to most effectively respond to victims' needs? Farepak illustrates that a key policy issue might be that the financial system requires more proactive regulation than currently exists, so that a lower number of victims are produced. Farepak raises some serious questions about the knowledgeable consumer model so prevalent in government policy. The knowledgeable consumer model fails to consider, or to take into account, gender differences in experiences of saving and/or investment. ■

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