

Understanding Financial Fraud, Victimology, Risk Factors, and Psychological Impact

FINRA Investor Education Foundation

*A webinar by the National Crime Prevention Council and
the Office for Victims of Crime, U.S. Department of Justice*

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2

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- I will relay your question verbally to the presenter.
- There will be an audio question/answer session at the end of the presentation.



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3

Webinar Recording

- ▶ This webinar is being recorded.
- ▶ The recording will be available on NCPC's website after the webinar



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4

Understanding Financial Fraud, Victimology, Risk Factors, and Psychological Impact

Guest Presenter

Christine N. Kieffer
Senior Director
FINRA Investor Education Foundation



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5

FINRA & FINRA Foundation

Financial Industry Regulatory Authority (FINRA)

- ▶ Largest independent regulator for all securities firms doing business in the United States
- ▶ Empowered by federal government
- ▶ Created through consolidation of NASD and NYSE Regulation
- ▶ Regulation, enforcement, education

FINRA Investor Education Foundation

- ▶ Awards grants and manages targeted projects focused on investor education and protection



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About Me

Christine N. Kieffer

- ▶ Oversees Targeted Projects for FINRA Foundation
 - Investor Protection Campaign
 - Military Financial Readiness Project
 - National Financial Capability Study
- ▶ Co-Executive Producer, *Trick\$ of the Trade: Outsmarting Investment Fraud*
- ▶ Served as staff support on President's Advisory Council on Financial Capability
- ▶ Previously worked at Sallie Mae and NASDAQ
- ▶ Bachelor of Science, Mathematics and Economics, Vanderbilt University
- ▶ Other? Mom to two boys



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A Call from Ruth



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Challenges to Preventing Financial Fraud

Psychological Barriers

- ▶ Illusion of invulnerability (I can't be taken.)
- ▶ Reactance (You're not the boss of me.)
- ▶ Threats to self-esteem (I am not stupid.)
- ▶ Too much information (I can't remember what you taught me.)

Systemic Barriers

- ▶ Scams everywhere (how do you warn against so many different frauds?)
- ▶ Scale (how do you reach a critical mass of consumers?)
- ▶ Proving a negative (how do you show when something doesn't happen?)
- ▶ Persistence (if you can show a preventative effect, does it last?)



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Inside the Con Man Mind

Why does emotion cause people to act irrationally?

“Emotion is unpredictable. It peaks and valleys. And once you know where to take the person for the peak, and you can keep them up in that altitude, then you can control them. If you drop them back into the valley of logic, you're gonna lose them.”

– Convicted Con

Source: Inside the Con Man Mind, Doug Shadel, AARP Washington

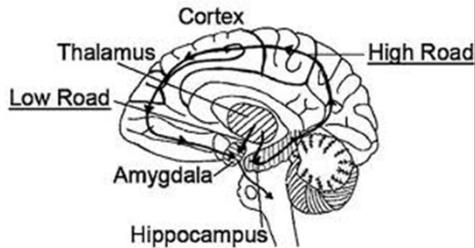


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Inside the Con Man Mind

Two Parts of the Brain

The Emotional Brain (Amygdala): “hot”, fast and unconscious. Respond to short-term, urgent needs.



The Thinking Brain (Cortex): cold logic, reason and data. Plan for the future, think about the big picture, delay gratification and weigh facts and situations.

Source: Inside the Con Man Mind, Doug Shadel, AARP Washington



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Key Emotions used by Cons

- ▶ **Compassion** – Messages that appeal to the heart.
- ▶ **Fear** – Messages that scare us into action.
- ▶ **Affinity/Social Acceptance** – Messages that appeal to the need for belonging.



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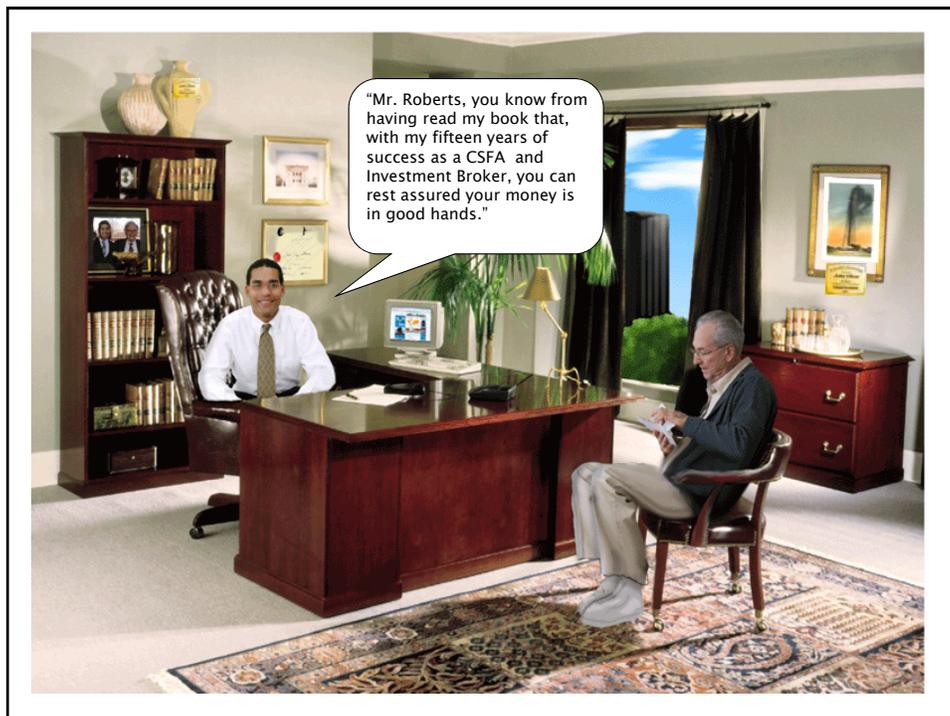
Persuasion and Influence Tactics

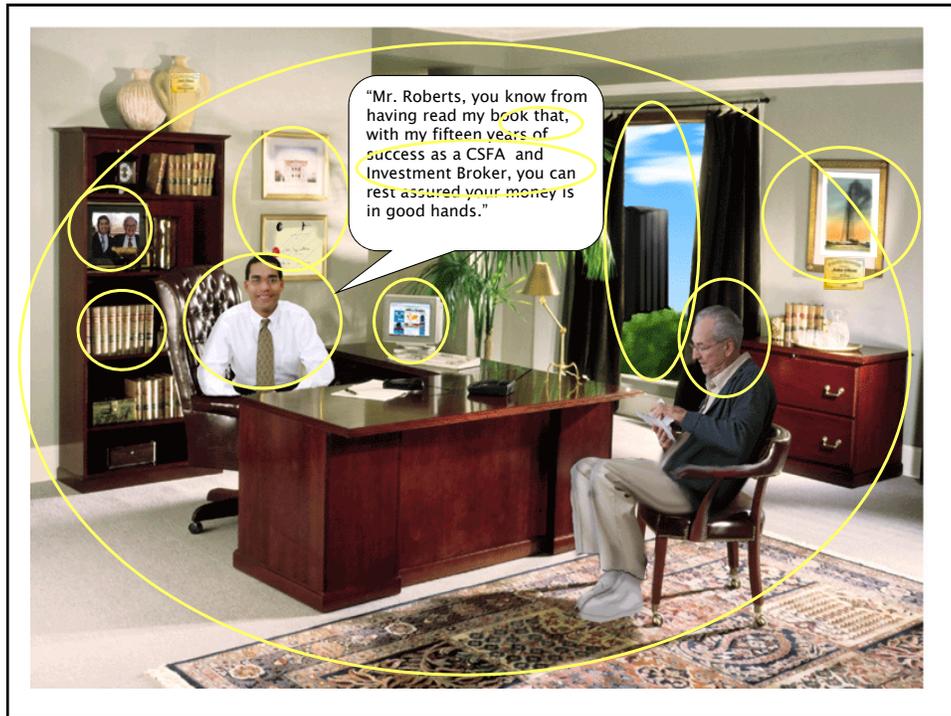
Frequently Used Tactics

- ▶ **Phantom Riches:** Dangling the prospect of wealth; something you want but can't have
- ▶ **Source Credibility:** It is better to deal with credible people/experts/authorities
- ▶ **Social Consensus:** If everybody wants it, it must be good; someone did their homework
- ▶ **Reciprocity:** Doing a small favor in return for a big favor
- ▶ **Scarcity:** If something is rare or scarce, it must be more valuable



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The Bias Blind Spot

- ▶ People acknowledge that biases affect other people's choices and actions
 - Less likely to see impact on themselves
- ▶ 80% of investors believe they are "above average" at spotting fraud

The Halo Effect

- ▶ **Bias:** assumption that people who rank highly on *one* important quality (warmth) have *other* unrelated qualities (intelligence)
- ▶ **Consequence:** unwarranted trust



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Fast Talking/Fast Thinking

- ▶ Listening to a fast talker leads to:
 - Energetic, happy and enthusiastic feelings
 - Tendency to view investments as:
 - higher quality/less risky
 - more deserving
- ▶ Fast thinking and fast decision-making lead to more immediate satisfaction with choice



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Proximal Pressure

- ▶ Consumers experience more pressure when those advocating an investment are:
 - 1) physically close to them and
 - 2) socially close to them.



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What Do We Need to Know?

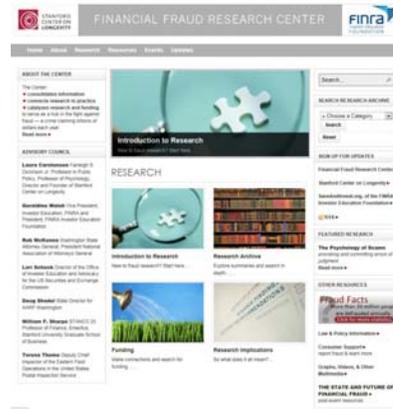
- ▶ How big is the problem? What is the cost to society?
- ▶ Are there useful, simple means of assessing (and overcoming) one's own psychological susceptibility to fraud?
- ▶ What factors most influence susceptibility? Is it simply a matter of targeting?
- ▶ To what extent does greed play in victimization? Impulsivity? Self-control?
- ▶ How can we harness technology to improve detection methods?
- ▶ What differentiates cons from "good salesmen"?
- ▶ Are there feasible regulatory or enforcement changes that could deter financial criminals? Better protect consumers?
- ▶ And much more!



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Financial Fraud Research

- ▶ Partnership with Stanford University Center on Longevity
- ▶ Serves as a hub in the fight against financial fraud
 - consolidates information
 - connects research to practice
 - catalyzes research and funding
- ▶ Online at www.fraudresearchcenter.org



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Partnerships

- ▶ Partnership with National Crime Prevention Council
- ▶ Deliver investor protection campaign messages and materials at the local level. Includes:
 - Outreach awards to state crime prevention associations
 - “Outsmarting Investment Fraud” trainings
 - Webinars
 - Crime Prevention Toolkit
 - Widespread distribution of unbiased resources and tools
 - Tracking reach
- ▶ Other Relevant Partnerships – **National Center for Victims of Crime, National White Collar Crime Center, Better Business Bureaus**



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Partnerships

- ▶ Partnership with National Center for Victims of Crime
- ▶ Develop guide and resources to help victim advocates better assist known victims of various types of financial fraud
- ▶ Professional development/training and handouts
- ▶ Timing: Launch fall 2013



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QUESTIONS AND ANSWERS



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24

Next Webinar

- ▶ Date: June 20, 2013
- ▶ Time: 2:00 – 3:00 pm ET
- ▶ Topic: Victim Service Providers and Prosecutors Working Together for Victims of Mortgage Fraud
- ▶ Guest Presenter: David Pendle
National District Attorneys Association
www.ndaa.org



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25

Mortgage Fraud Virtual Conference

Resources, presentation sessions,
and materials still available for
download until July 10

- ▶ <http://engage.vevent.com/index.jsp?eid=2155&seid=17>
- ▶ If you would like for me to send you the link, please email me at coletrane@ncpc.org



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Materials Available

- ▶ If you would like a copy of the following:
 - A pdf version of this presentation as well as other materials from the FINRA Foundation is available
 - A link to the virtual conference site
- ▶ Please email coletrane@ncpc.org



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For more information

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28