

Targeting Investment Fraud: Using Social Influence to Combat Investment Fraud

*National Crime Prevention Council
Webinar Series – May 1, 2013*



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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

- ▶ Senior Director, Investor Education
- ▶ Oversees Targeted Projects
 - 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
- ▶ Other? Mom to two boys



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Challenges to Preventing Investment 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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How Big is the Problem?

Recent Major U.S. Cases:

- ▶ Nevin Shapiro – \$880 million Ponzi scheme
- ▶ K. Wayne McLeod – \$34 million Ponzi scheme
- ▶ Bernard Madoff – \$50 billion Ponzi scheme
- ▶ Stanford Investments – \$8 billion Ponzi scheme
- ▶ Greater Ministries – \$500 million in losses – 18,000 victims
- ▶ Hundreds of cases with losses in the \$10-\$50 million range



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Common Features of Scams

- ▶ Scams are creative and consistently changing
 - Disaster Relief
 - Green Energy
 - Oil & Gas
 - “China” Stocks
 - Bird Flu
 - Terrorism
- ▶ New distribution channels are constantly being created
 - Seminars
 - Email & Internet
 - Direct Mail
 - Word of Mouth
 - Telephone
 - Text Messages
 - Answering Machines

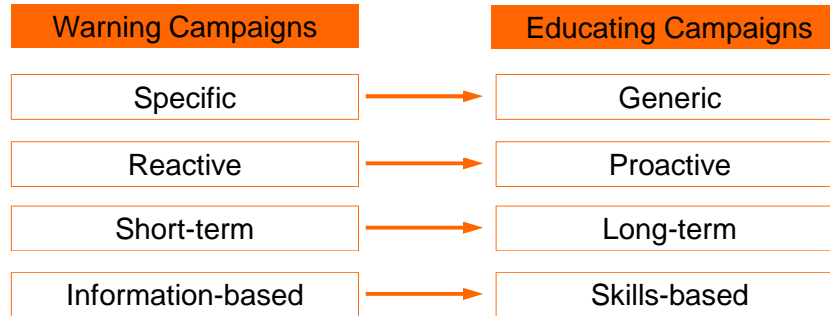


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Moving Beyond Warning Campaigns

Investor alerts and warning campaigns have limited focus.



Source: OECD, *Examining Consumer Policy: A Report On Consumer Information Campaigns Concerning Scams* (2005)



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Major Research

- ▶ **Off the Hook (2003)** USDOJ/AARP. A survey of 502 general population and 132 investment fraud victims.
- ▶ **Investor Fraud Study (2006)** FINRA/WISE Senior Services. A survey of 499 general population and 71 investment fraud victims.
- ▶ **Stolen Futures (2007)** AARP Washington. A survey of 258 general population and 125 investment fraud victims.
- ▶ **National Investor Risk Behavior Study (2007)** FINRA and AARP. A survey of 371 general population and 101 investment fraud victims.



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What We Learned: Victim Profile

Victim demographic trends:

- Male
- 55-65 years old
- More financially literate
- College-educated
- Recent change in financial or health status
- Self-reliant
- Higher income
- Risk-takers



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What We Learned: Key Risk Factors

- Owning high-risk investments
- Relying on friends, family, co-workers for advice
- Being open to new investment information
- Failing to check background and registration of financial professional and product
- Being unable to spot persuasion



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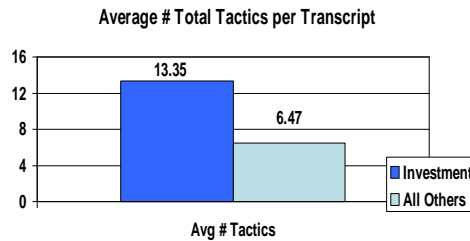


What We Learned: Fraud Weapon

Analysis of over 300 undercover fraud tapes

Most frequently used persuasion tactics:

- ▶ Phantom Riches
- ▶ Source Credibility
- ▶ Social Consensus
- ▶ Reciprocity
- ▶ Scarcity



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Response: Investor Protection Campaign

- ▶ FINRA Investor Education Foundation
- ▶ U.S. Securities & Exchange Commission
- ▶ State Securities Regulators and Other State Agencies
- ▶ National Organizations: AARP, Council of BBBs, National Center for Victims of Crime
- ▶ Stanford University Center on Longevity
- ▶ Law Enforcement, Crime Prevention and Grassroots Organizations



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Investor Protection Strategy

Teach investors to:

- ▶ Know that are vulnerable
- ▶ Recognize persuasion techniques
- ▶ Take simple, highly protective steps
 - Ask questions
 - Check answers

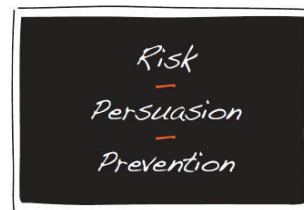


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“Outsmarting Investment Fraud” Curriculum

- ▶ Outsmarting Investment Fraud
 - Understanding Fraud **Risk**
 - Recognizing **Persuasion** Tactics used in Fraud
 - **Preventing** Investment Fraud
- ▶ Incorporates moderated presentation, videos, and learning activities & exercises
- ▶ Call to Action: Deputizes participants to warn others



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Accepting Vulnerability – Fraud Risk



Steve Sampler
 Stock Broker
 Investment Fraud Victim

Risk Meter

Start > Question 12 of 12 > Results

Your Investment Fraud Risk Meter Results

LOW MEDIUM HIGH

The Risk Meter compares your responses to the findings of two research studies—a 2007 Senior Fraud Risk Survey by the FINRA Investor Education Foundation and a 2006 Investor Fraud Study by the Consumer Fraud Research Group—that examined how known investment fraud victims differ from non-victims.

Based on your responses, you are in the "red zone" when it comes to investment fraud risk. That means you share many of the traits and behaviors of known investment fraud victims, including the following:

- ❑ **neglecting to Check Out Brokers:** You are not alone if you've never checked out your investment professional with a regulator—about 80% of investors haven't! But smarter investors take time to check whether their broker, adviser or other investment professional is properly licensed and to verify his or her disciplinary history. To find out about a financial professional's background, use FINRA's [BrokerCheck](#).
- ❑ **neglecting to Check Out Investments:** All investing involves some degree of risk, but some investments are riskier than others. Because most frauds involve investments in companies that have not registered their securities with the Securities and Exchange Commission, a smart first step is to ask whether an investment you're considering is registered—and if not, why not.

Stories

www.SaveAndInvest.org/meters/risk

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Resisting Influence – Red Flags of Fraud



Humor

S-123456

"Miracle Shim"

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Orders Today 19,921

Cedar, Pine, Oak, Hickory
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Practice Spotting Persuasion

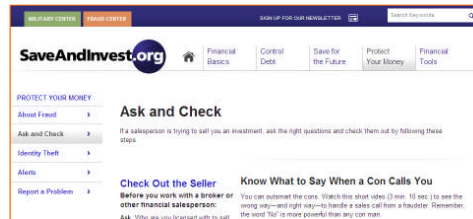


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Preventing Fraud – Ask and Check

SaveAndInvest.org can help.



Before You Invest, Ask and Check!



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Impact: Field Testing a Curriculum

- ▶ Recruit investors to attend one of two workshops.
- ▶ Deliver new curriculum to the first group, then put both groups in a hypothetical “fraud situation”
- ▶ Measure difference in resistance to fraud appeal.



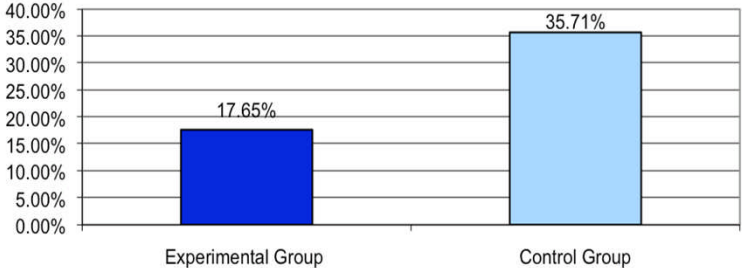
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Impact: Evaluation of Curriculum

Those who had been to the OIF seminar responded positively to the fraud appeal 50% less frequently than those who had not.

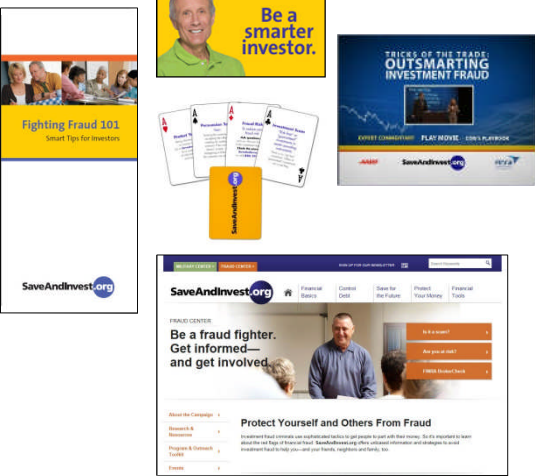
Percentage of Respondents who Agreed to Receive Information



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Response: Free Resources



- Documentary DVD
- Partner Toolkit
- Customizable CD with Presentations
- Portable Flip Chart
- Public Awareness Ads
- Handouts
 - Fighting Fraud 101
 - Investor Kits
 - Playing Cards

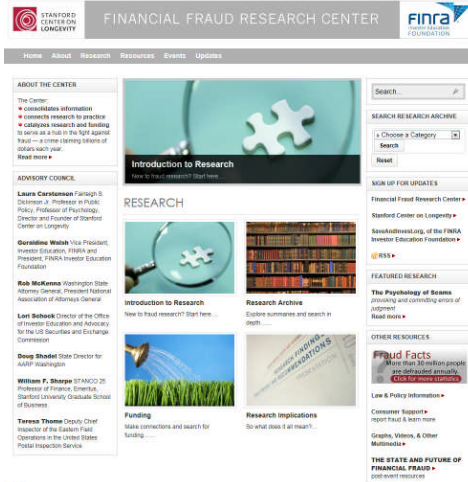


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Response: Fraud Research

- 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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Response: 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 – NCVC, NW3C, BBB



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SaveAndInvest.org/FraudCenter

Sign up for the e-Newsletter!

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Reach: Investor Protection Campaign

Elements:

- Dozens of partnerships
- Field-tested program curriculum
- Award-winning documentary & educational materials
- Financial Fraud Research Center
- Website and 888-number (888-295-7422)
- Paid and earned media

Reach:

- 46,000+ investors reached through 900+ events
- 760+ airings of the documentary on 172 public television stations in 76 markets across 31 states
- 130,000 DVDs and 34,000 *Fighting Fraud 101* brochures distributed



SaveAndInvest.org

A Project of the FINRA Investor Education Foundation

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