Targeting Investment Fraud: Using Social Influence to Combat Investment Fraud

National Crime Prevention Council Webinar Series – May 1, 2013

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
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

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?)
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

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
Moving Beyond Warning Campaigns

Investor alerts and warning campaigns have limited focus.

<table>
<thead>
<tr>
<th>Warning Campaigns</th>
<th>Educating Campaigns</th>
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<tbody>
<tr>
<td>Specific</td>
<td>Generic</td>
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<tr>
<td>Reactive</td>
<td>Proactive</td>
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<tr>
<td>Short-term</td>
<td>Long-term</td>
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<tr>
<td>Information-based</td>
<td>Skills-based</td>
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Major Research


### 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

### 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
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

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
Investor Protection Strategy

Teach investors to:
► Know that they are vulnerable
► Recognize persuasion techniques
► Take simple, highly protective steps
  – Ask questions
  – Check answers

“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
Accepting Vulnerability – Fraud Risk

Risk Meter

Stories

www.SaveAndInvest.org/meters/risk

Resisting Influence – Red Flags of Fraud

Humor

Practice Spotting Persuasion
Preventing Fraud – Ask and Check

SaveAndInvest.org can help.

Before You Invest, Ask and Check!

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.
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

<table>
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<th>Experimental Group</th>
<th>Control Group</th>
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<tr>
<td>17.65%</td>
<td>35.71%</td>
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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
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

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
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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