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Understanding victims of financial crime

A qualitative study with people affected by investment fraud

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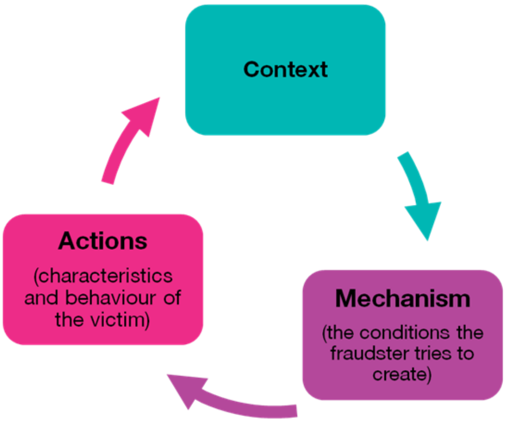
Summary

Financial crime affects thousands of people in Britain every year, yet very little is known about the experiences, behaviours and decision-making of victims of these crimes.

This qualitative study involved in-depth, face-to-face interviews with 31 victims of investment fraud, including boiler room share fraud, land banking, and frauds involving the sale of carbon credits, diamonds, wine, rare metals, gold and foreign exchange. Interviewees also included those who had been victims of recovery room fraud.

People affected by investment fraud are not simply passive victims. Their accounts highlight their agency, and their attempts to prevent their own victimisation.

Victims' narratives illustrate the numerous ways that they seek to verify the authenticity of the supposed investment opportunity, including challenging the fraudster, conducting independent research, contacting the FCA and other professionals, and talking to family, friends and colleagues. However, victims described experiences where, despite this opportunity for intervention and to disrupt the fraud, the ambiguous information they received in fact further supported the fraud.



Fraudsters do not simply mislead victims, they actively groom them into a relationship where they become emotionally attached to the fraud(ster).

Fraudsters mislead victims through veneers of professionalism, such as high quality documentation, a professional business set-up and well-presented sales people. This is extended through deliberate deception, circumventing regulatory regimes and obscuring their identity. However, veneers of professionalism and deception tactics alone are insufficient to perpetrate an investment fraud.

Fraudsters also employ a range of mechanisms in a process of grooming the victim, including building friendship and trust, flattering the victim and appealing to visceral feelings, making victims feel indebted to them, isolating victims from their financial social networks and manipulating the victim's behaviour by giving and withholding their friendship.

Deception mechanisms are used consistently with all victims, but grooming mechanisms are responsive to different victims' personalities and the contexts of their lives.

Regardless of the financial product being sold, victims describe similar deception mechanisms and common phases that the fraud goes through. However, each fraud is unique because it is built on the way that the fraudster grooms the victim into a relationship with them and manipulates the context of their lives at that specific point in time. Victims in this study described financial, familial and psychological factors that were interconnected and provided the specific background to their decision to invest at the time of the fraud:

- Financial: the financial resources available to them, including any recent changes in their situation; particularly optimistic or pessimistic beliefs about financial systems and institutions; and the extent and quality of their financial social networks.
- Family circumstances: feeling immediate pressure to increase their income due to family responsibilities; a strong desire to provide for family members long-term.
- Psychological: participants described personality traits that they felt enabled the fraud, such as being trusting, compared with those that were protective, such as being reflective. Further, experiencing psychological stress at the time of contact was described as increasing their vulnerability to the fraud.

The interplay between the context of victims' lives and the grooming mechanisms used by fraudsters creates a space in which victims' actions can be understood as rational.

Victims of investment fraud are often portrayed as acting irrationally, however we found that they do in fact make rational decisions based on the information available to them at the time, and in the context of behavioural biases that are manipulated by the fraudster. In order to disrupt a fraud, those who seek to intervene need to disrupt the thin veil of rationality which the fraudster has created around the victim's actions.

How transferring money to a fraudster becomes rational
In 2009, Kenneth's bonds with AIG have just matured. After six years, he has received no return on his investment. AIG is at risk of collapsing. Kenneth's wife died a few years ago and asked him to look after her family. His brother-in-law is in financial difficulty as a result of losing money in the Global Financial Crisis. Kenneth is a trusting person, informed by his religious faith.
▼
A "broker" contacts Kenneth and sends him information about the financial markets. After several months, he is offered the opportunity to invest in a gold mine. The fraudster is friendly and knowledgeable, and tells him that gold is the safest investment with the financial markets the way they are. Kenneth has heard a similar thing in the media, and believes it is true.
▼
Kenneth has £300,000, mostly in high street banks. It isn't getting interest there, and he's worried that the banks may collapse. The "broker" is suggesting a relatively small investment (3% of his savings), he seems to be a "nice guy" and hasn't been pushy, and has already made a return for Kenneth on a smaller investment (1% of his savings).
▼

Kenneth thinks of the fraudster as his “broker” and in the context of the state of the current financial markets, Kenneth makes what he fully perceives to be a rational decision to invest £10,000 in what he believes are
shares in a gold mine.

We propose a typology of four different types of people to understand how they are affected by investment fraud: Risk Averse Investors, Dabblers, Providers and Adventurers.

Differences between the ways participants in this study engaged with the fraudsters can be explained by understanding differences between their contextual factors, effective grooming mechanisms, and the actions they take. The table below provides an overview of the key characteristics of victims in each typology group.

Overview of victim typology

	Risk Averse Investors	Dabblers	Providers	Adventurers
Context	No recent change in available financial resources Connected financial social networks e.g. lengthy experience with investing Personality: sceptical, reserved Low risk appetite	Both static and changing available financial resources Two sub-groups: Connected Dabblers and Isolated Dabblers Connected Dabblers have a medium-high risk appetite, compared with Isolated Dabblers who have a medium-low risk appetite	Recent change in available financial resources Isolated in terms of their financial social networks Low-medium risk appetite	Both static and changing available financial resources Connected financial social networks, but may not use these High risk appetite Personality: positive, adventurous, risk-taking
Effective grooming mechanisms	None	Visceral appeals For Connected Dabblers, isolating victims from their financial social networks	Making the victim feel indebted Withholding friendship	Flattery and visceral appeals
Actions	Engaged for less than 1 month, no money transferred	Engaged for less than 6 months, victimised only once	Engaged for more than 6 months, repeatedly victimised within a single fraud	Engaged for more than 12 months, repeatedly victimised over multiple frauds
Impact	No financial impact Low emotional impact	Low-Medium financial impact Low-Medium emotional impact	Medium-High financial impact High emotional impact	Medium-High financial impact Medium-High emotional impact

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1 Introduction

Every year, thousands of people in the UK are affected by financial crimes (National Fraud Authority, 2013; Experian, 2013), and yet their experiences as victims of crime have received limited attention from researchers. What research has been conducted about fraud more broadly has suggested that victims experience high levels of self-blame (Schichor et al, 2001), fear criticism from family members and the authorities (Croall, 2008; Webb, 2010; Hache and Ryder, 2011), and often don't report the crimes (Goucher, 2010). Our own research with victims of online fraud (Kerr et al 2012) found that these frauds can have a broad impact on the individual, their family, and public trust in institutions. This is supported by research which has highlighted the impact of the time taken to deal with the fraud (Fraud Advisory Panel, 2006; Pascoe et al., 2006), as well as emotional, psychological and health impacts (Whitty and Buchanan 2012; Button et al, 2009 a,b,c).

This study for the Financial Conduct Authority (FCA) seeks to begin to address this evidence gap, and lead to activities to prevent and disrupt financial crime that are grounded in an understanding of the experiences, behaviours and decision-making of victims.

1.1 Research context

1.1.1 The Financial Conduct Authority

The FCA was established in 2013 as part of a new system for regulating financial services in the UK created by the *Financial Services Act 2012.* Preventing financial crime is key to fulfilling the FCA's statutory objectives to both protect consumers of financial products, and to protect and enhance the integrity of the UK financial system. However, as the regulator of firms which sell and arrange financial products and services, the FCA is one actor amongst several who have a remit and responsibility to work together to protect individuals from financial crime. These other actors include the National Crime Agency's Economic Crime Command, the Home Office and City of London Police's National Fraud Intelligence Bureau.

1.1.2 Research rationale

As part of its consumer and market intelligence and research programme, the FCA has developed a consumer segmentation model[1] to understand consumers' financial needs and vulnerability to risk. In order to further develop its capacity to protect consumers from financial crime, the FCA commissioned quantitative research from Experian to build on this segmentation model. In 2013, Experian analysed information held by the FCA and the City of London Police on people who had reported experiences of a specific form of financial crime: investment fraud. This quantitative segmentation highlighted that victims of investment fraud are most likely to be male, over 65, and

[1] The FCA Consumer Spotlight. For more information please contact the FCA's Consumer & Market Intelligence team.

have financial resources available to them to invest. Commonly, victims were “Retired with Resources” (over 65 with savings of £10,000 plus; 3½ times more likely to be victimised) or “Mature and Savvy” (more highly educated, middle-aged, more likely to be male; 2½ times more likely to be victimised).

Quantitative segmentation provides a crucial picture of the broad characteristics of the population of consumers affected by investment fraud. However, it doesn’t provide a depth of understanding about the processes involved in the crimes and how both victims and offenders behave within that process. Therefore, the FCA commissioned this qualitative research from NatCen Social Research’s specialist Crime and Justice Team, to speak directly to victims of investment fraud themselves.

1.1.3 Research aims and scope

This qualitative study aimed to:

- Understand the experiences, behaviours and decision-making processes of victims of different types of financial crime
- Obtain real life examples of the experiences of victims of different types of financial crime
- Identify optimum strategies for interviewing victims of financial crime, to inform training of FCA Enforcement Division staff.

For the purposes of this study, “victims of financial crime” refers to people who were contacted to invest in a financial product, where the company selling the product was found to be fraudulent. The research included investment frauds related to financial products regulated by the FCA as well as other financial products not regulated by the FCA including boiler room share frauds, land banking, carbon credits, rare metals and diamonds, and “recovery room” frauds.

1.2 Methodology

Taking an ethical and scientifically robust approach to the qualitative research was integral to the design and implementation of this project. Full details of the methodology are given in Appendix C. The methods are therefore only briefly summarised here.

Qualitative research enables an in-depth exploration of social phenomenon. It is ideally suited to exploring sensitive and complex issues such as experiences of becoming a victim of financial crime.

For this research, individual in-depth qualitative interviews were completed with 31 people with experience of investment fraud. Participants were selected to represent a range and diversity of experiences and characteristics, as shown in Table 1.1 below. This diversity allows us to draw wide inferences to better understand all victims’ experiences of financial crime. The research interviews were facilitated by taking a responsive approach and tailored to individual experiences. The interviews focused particularly on the way that the financial crime had been committed, victims’ responses to being defrauded and their perceptions of the impact of the fraud. Issues relating to the prevention of financial crime were also discussed.

Table 1.1 Sample – key characteristics

Gender		Age		Fraud type		Financial loss (£)	
Female	8	36-50	6	Share fraud	27	0	4
Male	23	51-60	5	Land banking	5	1 – 2,999	1
		61-70	8	Fraud recovery	7	3,000 – 7,999	8
		71-75	7	Other – carbon credits, diamonds, wine, rare metals, gold, foreign exchange	7	8,000 – 19,999	2
		76+	5	Fraud recovery	7	20,000 – 49,999	2
						50,000 +	14

Interviews lasted up to two hours each, and were audio recorded and transcribed verbatim. Data management was facilitated by using the software package NVivo 10, and by hyperlinking the relevant parts of each transcript to the relevant thematic 'node'. This approach meant that each part of every transcript that was relevant to a particular theme was noted, ordered and accessible. The final analytical stage involved working through the coded data both within and across cases and themes, drawing out the range of experiences and views, identifying similarities and differences, and interrogating the data to seek to explain emergent patterns and findings (Spencer et al, 2013). This allowed us to take data analysis beyond just a description of themes, to develop the typology and explanatory accounts that do justice to the complexity of victims' lives and their experiences.

Verbatim interview quotations are provided in this report to highlight themes and findings where appropriate.

1.3 Conceptual framework

In narratives around financial crime, victims' perspectives are often made invisible through a singular focus on the actions of fraudsters, or else victims are portrayed as irrational actors complicit in their own victimisation. In this study, we seek to foreground the voices of victims. We believe it is important to both present their experiences as victims of crime who are not responsible for the crime committed against them. However, we must also ensure that they are not merely seen as passive victims. Rather, they are individuals who have become engaged in a process that led to fraud – therefore their individual agency is not erased in our consideration of the processes that led to the fraud.

Our analysis draws on Somerville and Bengtsson's (2002) theory of "contextual rational action." We propose that victims of financial crime choose to **act rationally** within a space created both by **contextual** factors in their own lives and society more broadly, and manipulated by the **mechanisms** of fraudsters. The actions of victims of financial crime are commonly viewed as irrational. We propose that certain configurations of victims' context, layered with the tactics of fraudsters, means that victims' decision-making and actions should be understood as rational, not irrational.

This concept is further developed through understanding the mechanisms used by fraudsters as a process of **grooming** (Seto, 2013). Fraudsters' tactics are commonly conceptualised as methods designed to trick the victim. We propose that these go beyond deception, and in fact, involve grooming the victim into a relationship through which they become emotionally attached to the fraud(ster).

Finally, people who experience repeat victimisation are particularly likely to be viewed as irrational actors, who continue to be victimised despite attempts at intervention from others. "Contextual rational action" and "grooming" go some way in explaining the experiences of these victims, but we propose that these victims' experiences can also be understood within Lyng's (2005) theory of risk-taking, "edgework." Lyng argues that some individuals participate in active risk-taking because the experience of taking a risk provides benefits in and of itself. He suggests that people are drawn to what he characterises as "edgework activities" by the "intensely seductive character of the experience itself." For these individuals, the personal, non-financial benefits of engaging in this 'edgework' as they are drawn into the fraud, is a central component of the context in which their decisions take place.

1.4 Report structure

Chapters 2 – 5 explore the three dimensions of the contextual rational action framework: the **context** of victims' lives at the point they are contacted by the fraudster (Chapter 2); the **mechanisms** used by fraudsters to manipulate victims, including a deconstruction of the grooming process as described by victims (Chapter 3); and the decision-making processes and **actions** of victims themselves (Chapter 4). In Chapter 5, we use a **typology** to describe how different configurations of context-mechanism-action were observed between different types of victims in this study, highlighting the opportunities and challenges this presents for preventing victimisation of different groups of people. In the final chapter, we outline **conclusions and recommendations** for grounding disruption and prevention activities in the perspectives of victims of financial crime.

Verbatim quotes from participants are both integrated into the analytical discussion, and highlighted separately throughout the different sections of the report. These illustrate the range and diversity of perspectives offered by victims who took part in the study. Case studies of individual victims are also interspersed throughout the report, with names changed for all victims.

1.4.1 Terminology

In the majority of the report, we have used the neutral term "participant" to refer to people we interviewed for the research. However, we have also chosen to use the term "victim", particularly in the chapter concerned with mechanisms used by fraudsters. While not all participants in the study actively identified themselves as victims, people affected by financial crime are often blamed by others for what happened to them, or indeed, blame themselves. For this reason, we believe it is important to name their experience as victims of crime, and by doing so, ensure that there is no ambiguity that the fraudster is responsible for their choice to target and manipulate the victim.

We have used the term “investment fraud” rather than “financial crime”, to ensure that it is clear to all readers that the study does not include the experiences of victims of other forms of financial crime, such as identity theft, phishing or insurance fraud.

Finally, we use the term “fraud” rather than “scam”, and “fraudsters” rather than “scammers”. The term fraud places this form of victimisation within the context of a broad range of crimes, from those committed against individuals through to those experienced by major corporations. Since the term “scam” is generally only applied to frauds committed against individuals, it can be seen as trivialising the harm done to individual victims.

2 The contexts of victims’ lives

Previous research conducted for the FCA found that individuals’ financial capability is highly variable, and that life events such as retirement, divorce and having a baby are associated with a reduction in financial capability (Taylor, 2009). This chapter outlines victims’ circumstances at the time they were contacted about the fraudulent investment. It describes the key contextual aspects of their lives identified from the analysis as being significant to explaining their decision to invest. These financial, familial and psychological contexts interplayed to make someone more or less vulnerable to becoming a victim of financial crime.

2.1 Financial context

In this section the ‘financial context’ that participants described for themselves are explored. These include their actual financial circumstances, their beliefs about financial systems, and the informal sources of information or advice about financial matters they could access.

It would seem obvious that people who become victims of investment frauds need to have some financial resources available to invest. This was true for participants in this study, however we found variation between participants as to how much they had available and why, and their perceptions of the relative value of this money. Further, while all participants described having financial resources available to make the first ‘investment’, some also described incurring debt at a later point in order to continue financing the ‘investment’ or in attempts to recover their capital.

2.1.1 Personal financial circumstances

Participants had often experienced a recent change in their financial circumstances around the time they were contacted by the fraudster. This may have been either a positive (increase) or a negative (decrease) change. This change in financial circumstances was seen as an important contextual factor that at least partly explained why they became victims of the fraud.

> Well, they happened to contact me just not long after I'd had quite a considerable amount of payout of endowments, around £45,000, £50,000, one I'd been paying in since I was about 28. So it was, that was the return, you know? And, well, actually a lot of people did contact me. I, this happens to me regularly and I normally immediately either say I'm not interested or after a few words say I'm not interested.
>
> *- Male, early 70s, share fraud*

Changing financial circumstances

Those who had recently experienced a **sudden increase** in available finances were thinking about how to invest this. Reasons for these significantly increased resources, included:

- Income from the sale of a business
- Payout from previous investments, such as selling a property or maturation of long-term investments

- Life insurance paid out due to bereavement
- A retirement pay-out.

Conversely, other victims were contacted at a point where they had a **sudden decrease** in available cash, and therefore felt under pressure to increase their financial resources quickly. Reasons for their decreased financial solvency included:

- Bereavement which resulted in loss of their partner's income, or meant that the participant had to provide financially for bereaved family members
- Money paid out in a divorce settlement
- Becoming self-employed and not having a regular income
- Lower returns than expected from investments perceived as 'safe', as a result of the Global Financial Crisis in 2008.

Static financial circumstances

> I had surplus cash floating about and you know, I'm always looking for another investment opportunity because, you know, it's my background. I like having a little investment dabble as you might call it.
>
> *- Male, early 60s, land banking*

However, these sudden changes were not experienced by all participants; with others reporting that their financial circumstances weren't particularly different at the time they were contacted by the fraudster. Within this group, there were differences between those people who perceived themselves as having a **small pot of savings** available to invest, usually accrued throughout their career, while others perceived themselves as having **surplus cash** available to invest, accrued throughout highly-paid careers, by receiving an inheritance early in life, or from achieving high returns on investments over a long period of time.

2.1.2 Attitude toward financial systems and institutions

Alongside participants' personal financial circumstances, their experiences and beliefs about the wider financial context, and institutions involved, often played a role in creating a conducive context for a decision to invest. There were participants that held particularly **optimistic beliefs** about financial systems. These included believing regulation and enforcement was stronger than they later found it to be, leading them to assume that if they received a call about investing it must be "above board"; that the particular country they transferred money to was a developed economy and so it would be safe to transfer money to a bank account there; or that because the fraudster banked with a well-known high street bank that the account must be legitimate.

Conversely, participants frequently spoke about their distrust of high street banks, different actors within both the banking and regulatory systems, and the global financial system more generally. Participants made particular reference to the 2008 Global Financial Crisis, sharing a number of **pessimistic beliefs**. For example, they felt that they were "robbed" by the financial industry; that those who work in the finance industry have profited despite the crash and have not been held accountable; that their savings are not safe with the high street banks; and that the finance industry is a “quagmire” in which it is difficult to tell who is trustworthy.

Both optimistic and pessimistic beliefs provided a context which enabled the fraud, on the one hand meaning that participants made assumptions about the legitimacy of fraudster’s activities, and on the other perceived the fraudster as a similar or more trustworthy alternative to the “corrupt” finance industry.

> I thought well, you know, going through the proper channels, you know I'd lost money through the proper channels. I'd lost faith in the banks because normally you could, you could put it into a, well not credit account, what's the other account, to get interest? But there was no interest then. Then of course me other investments, that were supposed to be good, I lost a lot of money on them. So this is why I was tempted to try another avenue, you know, which I thought were okay, but it wasn't.
>
> *- Male, early 80s, share fraud, carbon credits, rare metals and fraud recovery*

2.1.3 Financial social networks

We use the term “financial social networks” to refer to the informal bonds and relationships that participants had with others whom they felt they could discuss their financial circumstances with or seek advice on investments from. Participants discussed three different forms of financial social networks:

1. Participants spoke about having **strong social networks** *per se*, such as family members who lived with them or close by, or good friends that they spent time with, and who they felt comfortable discussing finances with. However, these social networks were not very knowledgeable about investing and advice they obtained from these networks about the supposed investment was not always helpful, and sometimes further enabled the fraud.
2. There were differences between these participants and those who had **no financial social networks**, tending not to speak about their finances with their partner, family or friends and not having contact with anyone that they felt comfortable discussing investments with.
3. Other participants had **well-connected** financial social networks, including:
   - A partner that they discuss financial decisions with
   - Other family and friends who they speak with about finances and investment
   - Family and friends who are experienced, successful investors
   - Regular contact with professionals around financial matters, for example an accountant or an Independent Financial Advisor.

> No, I don’t discuss things like that [investments] with other people… I don’t know really. It’s personal… and I don’t want to advertise I’ve got money to invest anyway. You know, apart from my family, but I don’t, I can’t even remember if I mentioned it to them. No, no, I think that’s too personal to discuss.
>
> *– Female, early 60s, share fraud*

Participants also spoke about how they were "brought up" in relation to money, and how this influenced their perception of the contact they received about investing from fraudsters. In some cases, participants had grown up with a "savings culture" or had grown up in households where money was tight. This could mean that they didn't really know people who invested money, or that when they were defrauded, they felt particularly reluctant to discuss this with anyone because of the shame associated with having "wasted" money. By contrast, a participant who was frequently contacted but had never invested with fraudsters suggested that receiving an inheritance at a young age and hearing about investment frauds even before that, had made him "savvy" to these risks and protected him from becoming a victim.

> I was lucky enough to have some inherited money which meant that I, from a young age I was able to have what I would regard as long-term investments... Growing up in the 1980s, I can remember as far back as… Barlow Clowes, a scandal about people that were thinking had made investments and lost money on it. So even before I really had control of this inheritance myself, I was aware of the fact that there could be problems.
>
> *– Male, late 40s, no victimisation (targeted for share fraud)*

Finally, participants spoke about how their financial social networks changed over time, particularly if they had ordinarily discussed finances with their partner, and then they separated from that partner or their partner died. This sometimes meant that their financial decision-making changed, because they were no longer influenced by the other person's perspective. As explored above, it also could have led to a change in personal financial circumstance. This illustrates how these different contextual dimensions could interact with each other to increase the condition whereby an individual was more at risk of investing with fraudsters.

2.2 Family circumstances

Participants spoke of feeling a responsibility to provide financially for family members, creating a context in which they either felt **immediate pressure** to increase their income, or in which the proposed investment appeared to offer an opportunity to support their **long-term goals** to ensure family members were financially secure.

Participants also described experiencing a time of acute pressures to increase their income, such as:

- Becoming the primary or only financial provider in a family with young children
- Wanting to work less in order to be able to spend more time with children
- Being unable to work due to caring for an elderly parent
- Feeling they had to pay for an expensive life event such as a wedding.

> The only thing on my mind was the promise I'd given to my late wife to look after members of her family. I wasn't really interested in becoming a very wealthy person, because I had no particular interest in a wealthy lifestyle. But all I wanted to do was to help out my brother-in-law and my brother; that was my main concern.
>
> *- Male, early 70s, share fraud & fraud recovery*

For other participants, while there was no immediate, acute family pressure to increase their income, they felt a sense of responsibility to provide financially for family members in the long term. For example they:

- Wanted to support their adult children to be financially secure, such as helping them to buy property or ensuring they receive an inheritance
- Wanted to be able to give money to extended family members less well off than the participant themselves.

These family circumstances could also relate to their status in other ways – with one participant noting that because she was single, she needed to be able to fund her own retirement, because "there'll be nobody to look after me if anything happens."

These circumstances were described as "drivers" in their decision to invest.

2.3 Psychological context

Participants often spoke about their own **personality traits** which they felt made them more or less susceptible to victimisation, as shown in Table 2.1 below.

Table 2.1 Personality traits

Fraud enabling personality traits	*Fraud protective personality traits*
Adventurous	Careful
Decisive	Curious
Extroverted	Frugal
Helpful	Reflective
Low self-esteem	Serious
Not rude to people	Sceptical
Positive	
Risk-taker	
Trusting, honest	
Addictive, gambler	

…There is risk associated with it as well and not everybody is, you know, adventurous. Some people are risk averse, aren't they, whereas I tend to be a little bit more risky. I need that excitement in my life; I can't bear being bored. And, you know, people say to me, 'You always have drama in your life because you're that type of a person'. And I am, unfortunately. I can't help it, you know?

- Female, late 40s, share fraud & carbon credits

Participants who spoke of themselves as "adventurous", having "addictive personalities" and wanting to be successful felt that this these traits enabled the fraud/s they had experienced, since they were more open to possibilities and opportunities and were willing to take a risk. They contrasted their own approach to life with friends and family members who they thought would have been unlikely to be victimised in the same way, either because they were more careful with their money or because they were less interested in financial success. Participants who described their personalities in this way also reported experiencing repeat victimisation, both within a single fraud and over a number of different frauds.

Others didn't describe themselves as risk-takers, but rather spoke about being generally helpful and polite, and not wanting to be rude. Participants felt that these traits enabled the fraud because they felt unable to hang up the phone and disengage from the fraud.

On the other hand, participants who didn't transfer any money to the fraudster described themselves as careful, sceptical and reflective and felt that these traits protected them from victimisation. However, participants who were victimised also spoke of themselves as ordinarily being "cautious", highlighting how different personality traits can interplay with each other and be manipulated by the fraudster. For example, a participant who was victimised over three years within a single fraud described himself as both "pretty conservative" in relation to risk, while also being a very "trusting" person. His trusting character meant that it was a long time before he had any suspicions about the fraud or even perceived the supposed investment as risky.

> We didn't get that far because I tend to be, I can be intrigued but I'm very sceptical and I tend to err on the safe side. And you know, at the end of the day if you're going to sell a share for £2 you can sell it safely a little bit later for £1.80 I'd think well, what have I lost? Not a great deal; if I'm happy with that then that's fine.
>
> *- Female, early 50s, no victimization (targeted for share fraud)*

Further, many of the traits that participants felt enabled the crime were also personality traits that they liked about themselves, such as being adventurous, helpful, positive or trusting, and they would not want to attempt to modify these traits despite feeling that they contributed to their victimisation.

Participants also spoke about experiencing some form of **psychological stress** at the point when they were contacted by the fraudster, which may have impaired their capacity to make decisions, or that this impairment emerged during the fraud and their vulnerability was then manipulated by the fraudster. Examples of this included participants that had been contacted during a relapse of a mental health condition such as depression, while for others an event such as bereavement meant that they did not feel they were functioning as clearly as they normally would.

> He started speaking about things, you know, and I could only think that at that particular time, because of the circumstances that we were in [of a family member recently dying], I really didn't care. I wasn't being as aware and vigilant as I, as I would have been normally and had been in the past.
>
> *- Male, late 60s, share fraud*

However, participants also suggested that they were particularly vulnerable to victimisation when they were happy and relaxed, resulting in a situation where "your alarm bells aren't there."

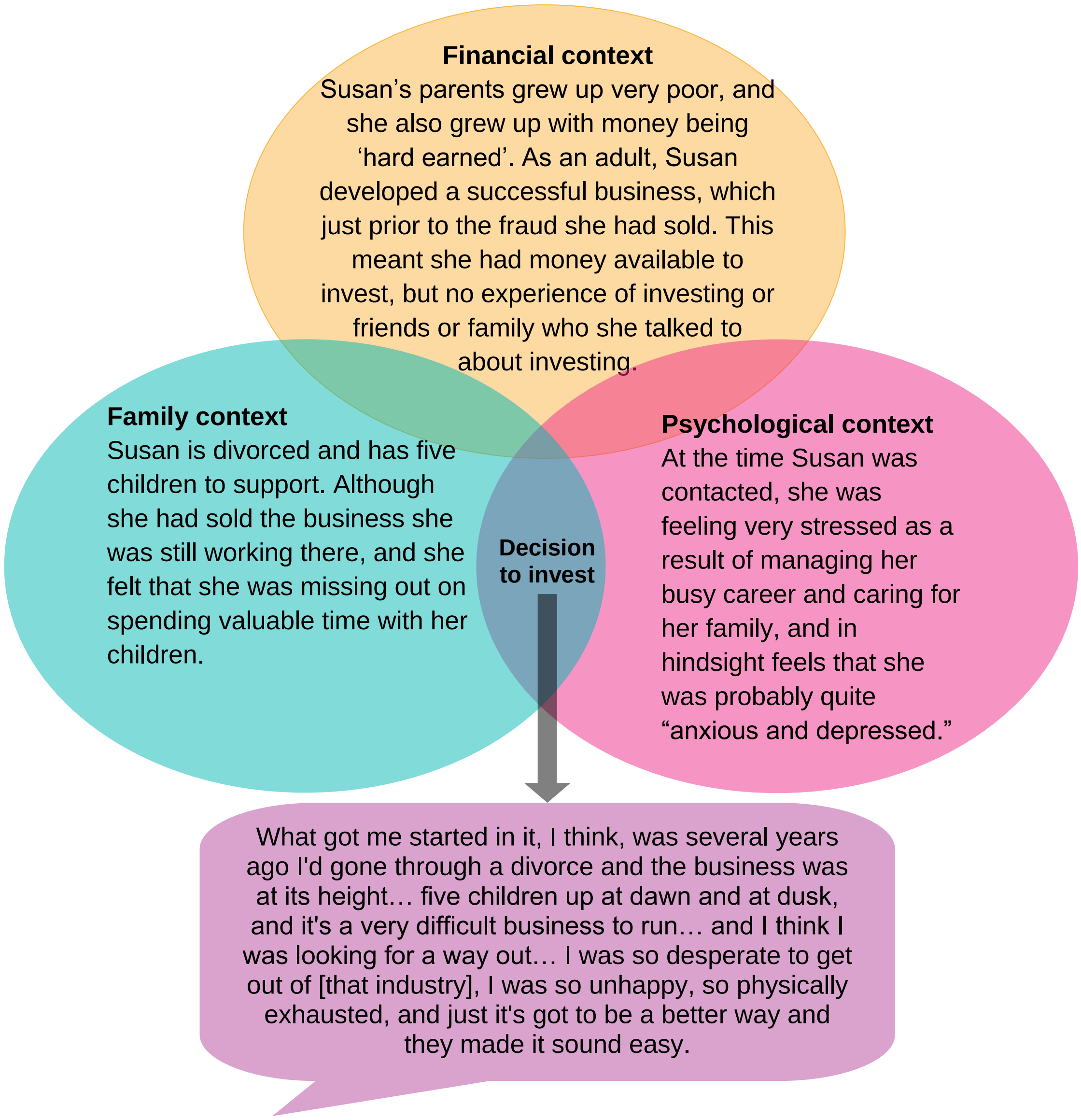
2.4 Summary

Participants were often approached by the fraudster at a point when there was a particular interplay between their financial situation, family circumstances and psychological state that provided the conditions whereby their decision to invest was made. Figure 2.1 below illustrates how these different contextual factors came together in one victim's life, making purchasing shares with a quick, high return seem like a realistic way out of a difficult situation.

Figure 2:1 Interplay of contextual factors in a victim's life - Susan

Figure 2:1 Interplay of contextual factors in a victim's life - Susan

Susan is a middle-aged woman who lost over £50,000 in a boiler room share fraud, and was subsequently victimised through fraud recovery.



None of the contextual factors discussed above explain financial crime victimisation alone, however financial, family and psychological contexts in victims' lives set the stage for fraudsters to successfully persuade the victim to invest.

3 Mechanisms used to perpetrate the fraud

Having described the contextual issues that underpinned the fraud, this chapter describes the strategies and tactics directly used by fraudsters. This includes how fraudsters elicit information about the context of victims' lives and use this to "groom" victims to transfer money. We illustrate that highly manipulative and professionalised techniques are used to complete a fraud.

3.1 Investment fraud characteristics

3.1.1 Overview of contact methods

Participants in this study described being initially contacted by fraudsters by telephone either on their home landline, work landline or on their mobile phone (boiler room fraud). Participants reported that the fraudster asked specifically for them by name, or that the contact was directed to a family member who was unavailable and so they took the call, or the family member passed the call onto them. These initial calls would involve an explicit suggestion that they should consider a particular investment, a request to consider selling shares they already held, or a request for contact details to send information to the participants about the financial markets and investment opportunities, with no mention of a specific investment. Participants also described variations on this initial contact method, including:

- A cold call asking them to complete an over-the-phone survey about investing, followed up weeks or months later with a more explicit call about an investment or telling the participant they'd been "chosen" from those who responded to the survey to receive free investment advice.
- A call which the participant believed to be a cold call, but where the fraudster made reference to a conversation they'd supposedly had with the participant previously.

A number of the people I've invested in I've been called cold. Now cold calling is often dodgy. But quite often the cold calls have been people who are phoning just to say would you, could I send you some material to tell you what my company's like. Nothing else though, nothing more than that. And so I've said yes, by all means send it. So they've sent me stuff and then I've looked at them and I've done due diligence and they were worth going for.

- Male, late 70s, share fraud, land banking, diamonds, wines, fraud recovery

- Contact initiated by the participant, who was searching for information about the financial market online and was linked to the fraudster's website through search results or advertisements. Fraudster's websites offer free investment advice or free market reports, so participants entered their contact details and then received a phone call from the fraudster.

- Contact may begin with hard copy materials posted to the victim, although participants had difficulty remembering whether they received information in the mail before or after the first phone contact.

Participants typically described receiving phone calls around lunchtime or before dinner, and were fairly ambivalent about being contacted in this way, suggesting that it's just "the nature of today's climate" to receive cold calls.

Participants described this either being the **first contact** that they'd ever had of this type, or that it was **one of many** cold contacts they receive about investing. Those that had received similar calls before offered a range of explanations for why they engaged with this particular contact:

- Specific contextual factors in their lives at the time they were contacted meant that they were more vulnerable than they'd been at other times, such as a change in available financial resources or experiencing psychological stress.
- The fraudster knew very specific personal details about them, which made them feel like the contact was different to others they'd received in the past.
- They didn't perceive the fraudster to be "pushy" on the phone, and since they weren't being asked to make an investment straight away they were willing to be sent information.

I started to take more interest in the marketplace and get some of these free reports. Big mistake because what you then do is you signify you're interested and then everybody, you get on a list I gather and then you are literally sent, you know, cold called and everything else. And so an element of this has been sifting through the good, the bad and the ugly because elements of it I kind of felt I'd brought onto myself by just being naïve enough to say I was interested.

- Male, early 50s, no victimisation (targeted for share fraud and carbon credits)

Participants tended to be unsure as to how the person contacting them had obtained their contact details, but made a number of suggestions:

- Participants believed their contact details were publicly available because they were a company director or shareholder, and fraudsters use these lists to select people who may be looking to invest.
- They had taken part in surveys, either online or by phone, and that the survey company had then sold their contact details to fraudsters. Participants felt that they were then targeted due to their age or income bracket.
- Participants had been defrauded once, and then believed their contact details were shared with other fraudsters.
- Participants had sought investment advice through a high street bank, and believed that the staff member from the high street bank had then given their contact details to the fraudster.

The initial contact made by fraudsters was followed up with information via email, a link to a website, or printed materials in the mail, before the participant would receive another call, anything from a couple of days to a couple of months later.

3.1.2 Characteristics of the fraud investment

Participants in the study described a broad range of products in which they were invited to invest, including shares in a private company through an Initial Public Offering (IPO), shares in existing public companies, foreign exchange, land, emissions trading certificates and commodities including gold, rare metals, coloured diamonds and wine. A number of participants were also contacted with a request to sell shares they already held, usually under the guise of a “hostile takeover” of the company they held shares in. Participants often noted that the investments they were offered were receiving media coverage and that this seemed to confirm the legitimacy of the investment. If they received information about an investment from the fraudster before seeing anything about it in the media, they thought the fraudster was well connected and that they were receiving privileged information.

Table 3.1 Common phases of an investment fraud
Initial contact, either with a cold contact from the fraudster to the victim, or with the victim requesting information from the fraudster. Cold contacts are made by phone or mail.
▼
Information provided to the victim, online or in hard copy (or both). This may start off as information about investing and financial markets generally, or begin immediately as an offer for them to be involved in a specific investment opportunity.
▼
Verification of the investment’s credibility and authenticity, conducted by the victim (discussed further in the next chapter) but directed by the fraudster.
▼
Initial small investment (between £600 and £5000 for participants in this study).
▼ ◄ **Disengagement point**: the fraudster may disengage immediately at this point, disappearing with the funds from the initial investment.
Ongoing contact between fraudster and victim by phone or online, with the fraudster reporting on the progress of the initial investment and discussing opportunities for further investment and returns.
▼
Larger investment amount/s, either because original investment is performing well, or because the fraudster convinces the victim that additional shares, land or commodities are required to make the first investment saleable.
▼ ◄ Participants who are offered the opportunity to sell shares they already hold skip from verification straight to this point, where they are asked to pay money to release the supposed proceeds from the sale of their shares.
Additional fees, expenses and financial guarantees requested to ready the shares, land or commodities for sale. This may include a bond to guarantee the sale of shares, fees to “clean up” brownfield land, or taxes to be paid to the US government before funds would be released.
▼▲
Fraud recovery, which may take a number of forms. Participants were sometimes contacted by a company purporting to have taken over the previous company due to mismanagement and would offer to try again to find a buyer for the shares or commodities. In other cases, participants would be contacted saying that the caller was investigating the previous company for fraud, either pretending to be a private firm or a government agency. If successful, this phase would move back into ‘additional fees and expenses.’

Importantly, as Table 3.1 above illustrates, regardless of the investment product offered, the different “phases” of the fraud appeared to be fairly common between participants. This presents a particular challenge for the FCA and other stakeholders seeking to disrupt investment fraud, since fraudsters can easily switch the investment product offered to one that is currently unregulated, while continuing with the same tactics and processes in perpetrating the fraud.

The length of time participants were in contact with the fraudsters and “investing” with them varied greatly, ranging from participants who were engaged for less than a month, to participants who engaged with a single fraud for up to three years. The intensity of the contact also varied, with participants who were engaged with the fraud over a longer period describing less frequent contact (for example, monthly) compared to nearly daily contact in shorter frauds.

Whatever the length of the fraud however, in encouraging victims to invest, fraudsters deployed tactics across three broad categories:

- **Veneers** of respectability, legitimacy and professionalism;
- **Deception** tactics, designed to obscure indications that the business is not legitimate and the identity of those involved; and
- **Grooming** tactics, designed to manipulate the victim into a situation where they feel like making the investment is the most rational option available to them and that they have an “emotional attachment” to the fraud(ster).

3.2 Veneers

Participants consistently described the contact they had with fraudsters as being “professional” in nature and presentation, including people who had had contact with real brokers in the past. Fraudsters used a number of tactics to convey this veneer of professionalism.

- **High quality documentation**: participants often received large amounts of paperwork, either by mail or email. This included glossy prospectuses, detailed contracts, share certificates and account statements. Fraudsters provided a website address and participants also reported that these looked professional, with some participants even receiving login details for an online account that tracked the progress of their investment. Examples of documentation sent to participants in this study are provided in Appendix B.
- **Professional business set-up**: participants reported being given addresses or phone numbers for the company that implied financial sophistication, such as being based in Canary Wharf in London. Some participants were reassured by the fact that the phone number they were given was a UK number, and mentioned details such as the phone being

> Royal Business Centre… Bank Plain… I can’t remember if I sent the investment documents back there, but I mean that sounds pretty impressive… it sounds like a credible address in a well-established business park… it’s not Scrag Lane, London East End, you know? You know, flat number 32 or something?
>
> *- Male, late 50s, share fraud*

answered by a female 'receptionist' when they called, that they were always transferred promptly to their 'broker', and that there was background noise like a stock exchange or that there was no background noise so it seemed like a professional office. Participants also described receiving documentation by courier or recorded delivery, which they also perceived as being professional. Fraudsters also created a veneer of legitimacy through "cloning" the identity of FCA-registered companies, which also verged into deception tactics.

- **Well-presented 'sales' people**: fraudsters who made contact with participants were nearly always male, with participants often reporting that they were polite, "well spoken" or had "posh accents", had "trustworthy" upper-class names, and used professional job titles. Victims were sometimes passed between people with different responsibilities, such as being passed from the initial contact person to the "legal department."

> They sounded just like the guys that I dealt with. You know, legitimate brokers. They just sounded and acted and conducted themselves in the same manner. Maybe that's why I got caught up with them, because having been dealing with brokers, or my own broker over there – in fact I probably even discussed it with him.
>
> *- Male, late 60s, share fraud*

In presenting this professionalism, the fraudsters used the same or similar approaches as legitimate companies may be expected to, illustrating the challenge individuals face in identifying an investment fraud.

3.3 Deception tactics

As well as having a well-honed veneer of legitimacy, fraudsters also used direct deception during the fraud. This included deliberately circumventing regulatory regimes and obscuring their identity.

3.3.1 Circumventing regulatory regimes

Fraudsters used a range of strategies to circumvent regulatory regimes, including:

- Falsely claiming to be FCA-registered (without cloning), including using a name that sounds very similar to a registered company, or using the FCA logo on their documentation, including printed materials and on their website
- Presenting themselves as a company based overseas and not regulated by the FCA
- Selling products that aren't regulated by the FCA, sometimes including claims to be registered with other bodies.

> I spoke to [the fraudster] about it and I said, 'What's this on FSA?' 'Oh no, they've got the wrong end of the stick here, they're victimising us and, you know.'… And I accepted what they said… In effect, what they did was use it to become more genuine in what is happening and letting me know they're aware of this situation.
>
> *- Male, late 60s, share fraud*

Participants who were engaged with fraudsters at the point at which the fraud was disrupted by the FCA described how the fraudsters attempted to undermine the credibility of the FCA, claiming they were being "victimised" by the regulator. Participants described being convinced by the fraudster's explanations that the information on the FCA website was out-dated and that the fraudster was in the process of working with the FCA to fix it. At the point of FCA disruption, the fraudster already had the benefit of an existing trusting relationship with the victim which they could exploit, and where participants held pessimistic attitudes towards financial institutions, this could be manipulated to further encourage the victim's identification and empathy with the fraudster.

3.3.2 Obscuring their identity

None of the participants in the study ever had face-to-face contact with the fraudster, which meant that when they realised the investment was fraudulent, they had very little information through which to identify the fraudster. Participants did describe arranging meetings with the fraudster, but in these cases the fraudster always made an excuse that meant the meeting didn't go ahead. Participants described a number of techniques that fraudsters used to obscure their identity:

- Purporting to be based overseas, or in a location difficult for the victim to visit
- Only giving out their first name, and/or using what participants believe in hindsight were false names
- Using generic company email addresses rather than a named email address
- Not giving out their phone number, so victims had no way of contacting them
- Switching the victim's contact person within the company frequently over the course of the fraud
- Switching their own identities over the course of the fraud: participants who were engaged with a fraud over a long period described experiences where their contact person became uncontactable, and soon after that they would receive contact from someone with a different name purporting to be from a different company. Participants suggested that this could in fact have been the same person using a different identity.

3.4 Grooming tactics

Originally a concept developed within the literature on sexual offending, 'grooming' refers to the use of tactics through which the perpetrator manipulates a victim to behave in the way they want them to, without having to resort to using force. Conceptually, there are strong parallels with the way fraudsters develop relationships with victims of financial crime, manufacturing a situation in which it appears to make sense for the victim to invest. Victims often then fail to identify themselves as being victims of crime, because they perceive themselves as being complicit in their own victimisation. Techniques used typically include: building personal relationships and trust; flattery and visceral appeals; making victims feel indebted to them; and isolating victims from positive (financial) networks.

3.4.1 Building friendship and trust

> And then slowly, slowly it was building up almost to a personal relationship, you know? They were saying, 'Oh how is' – I was building a boat, or rebuilding a boat, 'How's the boat getting on?'… You begin to – initially I mean, I can see why it was all done now but at the time you were, not quite, it's not flattered, but you were pleased that someone was interested in something that you were interested in. But it's all part of the, I'm sure it's all part of the game.
>
> *- Male, early 70s, share fraud*

In most cases, participants described being in contact with a main contact about the 'investment', although those engaged with the fraud over a long period of time often had contact with one main person at any particular time but with many people over the duration of the fraud. Participants described fraudsters as not only being professional but also "friendly", "charming" and "informal", and said that the fraudsters showed an interest in their life beyond financial matters, which made them feel connected to them and for some people, that the fraudster was a friend.

For the most part, participants didn't feel like they were being put under pressure to invest, and while some participants did receive phone calls every other day, others received phone calls fortnightly or monthly. Some received investment newsletters or email investment updates for months before ever being asked to make an investment. Because these participants didn't perceive the fraudster to be giving them a "hard sell", they felt that they were more trustworthy.

3.4.2 Flattery and visceral appeals

Fraudsters often began by building friendship and trust, and then deepened this bond through tactics designed to flatter the victim, alongside using visceral appeals that play into the contextual factors in victims' lives.

> He was sort of the big boss that was looking after my portfolio… When one gets friendly with you, they'd pass you onto another one, who supposedly would be a bit higher up. And he's dealing with that side because it's a bit more important.
>
> *- Male, early 80s, share fraud, carbon credits, rare metals, fraud recovery*

Fraudsters **flattered** the victim by suggesting that they have been specially chosen in some way. For example, one participant was initially contacted for a 'telephone survey' about investing, and then received a call a few weeks later saying that she'd been chosen as one of the "lucky people" they were going to help. Participants also described the fraudster passing them on to other supposedly more senior colleagues or teams that dealt with "high value" customers. Participants also described feeling that the fraudster engaged them "intellectually", that the fraudster treated them as if they were highly intelligent, and that the relationship between them and the fraudster felt "reciprocal."

Alongside flattery, which appeals to people's desire to view themselves positively, fraudsters made **visceral appeals** to the lifestyle people wanted for themselves. Sometimes this involved the fraudster talking about their own wealthy lifestyle, or encouraging the victim to discuss how they

> I just felt like I was one of the lucky few in the world that was being chosen to get involved and like my luck was in and I'd won the Lottery kind of feeling. That's how I felt, I truly believed that.
>
> *- Female, early 40s, share fraud & land banking*

would spend the income generated by the investment. This was often accompanied by suggestions that the investment being discussed was low risk. This was further ‘evidenced’ by details such as the fraudster saying that their own family members are investing in the scheme.

3.4.3 Making victims feel indebted

Throughout their relationship with the victim, fraudsters cultivated a situation that makes victims feel as though they owe it to them to make an investment, or increase their initial investment. This begins from first contact, with the fraudster positioning themselves as being a financial expert and having **‘insider’ information** which they are sharing exclusively with the victim for free. Victims are often made to feel they’ve received lots of **services for free** before any investment request is even made, such as through receiving information about the financial markets and phone conversations where they feel they are receiving education in investing without being directly asked for money.

> That was the point, really, where I should have withdrawn, I should have said no. But, you know, as I say, I had already morally committed myself in that he and I had discussed it the day before, and we had agreed that I would do it. So we did it that afternoon, didn't we?
>
> *- Male, late 70s, share fraud*

As the fraud progresses, the fraudster would sometimes **shame** the victim into going ahead with an investment they were unsure about it. Participants described having concerns about transferring the money, but that they felt they had made verbal commitments to make an investment and that it would be dishonourable not to go ahead. Fraudsters made this obligation explicit in their conversations with victims, introducing the idea that “your word is your bond” and reinforcing this when victims expressed doubt about going ahead with transferring a payment. Participants also described being shamed about their ability to raise the necessary investment amounts, and that they had to justify to the fraudster why they couldn’t afford to invest (further). For example, a participant described how he was generally contacted around the time of his payday each month and asked for more money, based on what the fraudsters believed he was actually able to pay.

> They returned the money to me and then asked me to resend it, which I did because I had the money back in my bank and I was in control. And that was quite momentous really I suppose… the trust element was there then.
>
> *- Male, early 40s, share fraud*

Participants also described having their money returned to them by the fraudster, either as a way of increasing the victim's trust before the victim even raised any concerns, or as a way of proving their legitimacy to victims who were suspicious. This tactic had a few variations:

- Transferring the first payment made by the victim back to their bank account immediately, suggesting there was a banking error. These victims were then asked to transfer the money again, which they did.
- Returning the victim's capital investment, on the basis that the investment apparently hadn't performed as well as expected. The victim was then re-contacted a few weeks later and asked to invest again, which he did.
- Returning the victim's capital with interest, evidencing that the investment had been successful. The victim herself then reinitiated contact a couple of months later and re-invested the same amount of money, and even recruited a friend to "invest" in the scheme.

Whichever form it took, participants described that tactic of giving money back as "convincing", and that it was an effective method of building their trust and making them feel in control. For participants who had been suspicious of the investment, having their money returned made them doubt their own judgement and feel bad that they had believed it was a fraud.

> After two weeks I got the full amount back plus the £2500… so I left it a few more months and then I thought, well, maybe they were, you know, above board… I just thought maybe I shouldn't be so sceptical; maybe I should be a bit more trusting, you know? They've given me the money back and the money that it's made, and you know, I can't bear to see money just sitting in the bank earning £10 a month or something.
>
> *- Female, late 40s, share fraud and carbon credits*

3.4.4 Isolation of victims

Fraudsters often attempted to isolate victims, which both reduces the potential for disruption of the fraud by others, but can also serve to strengthen the relationship between fraudster and victim by playing further on the victim's feelings of being "chosen" to be part of an elite group of investors. In some cases victims were instructed not to tell anyone about the investment (for example, due to potential repercussions on other people if the hostile takeover was revealed, or because it would devalue the investment if everyone knew about it), while others were required to sign "confidentiality agreements" by the fraudster about the supposed investment.

As well as **explicit requests** not to talk about the investment, fraudsters used a range of **delaying tactics** that prolonged their relationship with the victim and prevented victims from seeking timely information or support from their social networks or the authorities.

> So they said, 'Right, we'll send all the forms for you to sign straightaway, but you mustn't divulge this to anybody at all, because obviously if it gets back to easyJet then somebody's going to be in trouble there for divulging it'. And also… it could cause a lot of people losing their jobs obviously, if it all, if it was all found out.
>
> *- Male, early 70s, share fraud*

- Offering free storage of purchased goods, such as diamonds. Since the victim isn't taking possession of the goods, it takes longer for them to realise they don't exist.

- Making phone calls to the victim immediately after money is transferred, in the period that the fraud is being shut down (either by the fraudster or by the FCA). This gives victims confidence that the investment is genuine, since they would expect a fraudster to simply "run off" with their money.
- Requiring investments to be locked in for a certain period of time before being withdrawn. This was usually a small enough amount of time to make it feel like a quick return on the victim's investment, but long enough for the fraudsters to disappear before the victim has any suspicions or opportunity to report the fraud. Participants also noted that this made the product look like investment products offered by high street banks, which gave them confidence.

3.4.5 Withdrawing friendship

By building a strong relationship with the victim, fraudsters were then able to manipulate the victim by withholding "friendship" when the victim didn't behave in the way they wanted them to. Most participants challenged the fraudster at some point in their relationship with them, and described how this challenging would be met with anger and rudeness, or with the fraudster becoming upset with the victim. Participants said they felt that they had to offer a good reason for ending the relationship with the fraudster, while others said that fraudsters would simply cut off contact when challenged. Participants described feeling that they needed to rebuild this relationship with the fraudster in order to have any hope of retrieving the money they had invested. This dynamic is illustrated in the case study shown in Figure 3.2 below, and in the case study (Figure 4.1) in the next chapter.

> I've been trying to hold them to account... But then again, my anger and angst can be followed by, well, the email to them could be followed by four, five days or couple of weeks of silence. So that's, is dispelled or diluted if you like. So the next time I'm almost pleased to hear from them again 'cause I realise that communication has been re-established.
>
> *- Male, early 40s, share fraud*

Figure 3.2 Case study of the grooming process - Kenneth

Kenneth is a 70 year old retired academic who lost approximately £150,000 through repeat victimisation within a long and complex fraud that lasted over three years.

Context

Financial: Kenneth had a sudden increase in available resources (£300,000) due to bonds maturing from money invested after his retirement and receiving an insurance payout when his wife died. He didn't want to reinvest in the bonds, since the institutions these were with were at risk in the Global Financial Crisis (e.g. AIG). Kenneth has strong social networks, but no one he discusses financial matters with.

Family: Kenneth is widowed, and promised his late wife to "look after members of her family." His brother-in-law had just lost a lot of money in the global financial crisis, so Kenneth felt pressure to support him.

Psychological: Kenneth describes having a "strong personal religious faith" which informs the fact that he is "too trusting." He describes himself as an "upright citizen" and so expected others to behave similarly.

Grooming mechanism	Timeline
Initial contact	Kenneth received a cold call in **2009** from Company A, asking to send him "no obligation" literature on investing.

Building friendship and trust	Kenneth received printed materials in the post over the next three months on "good quality paper" about the "state of the markets." **Three months later**, Kenneth received a phone call from Michael at Company A. Kenneth describes him as "relaxed, very informal, very courteous, interested in your life."
Flattery and visceral appeals	Michael tells Kenneth about an opportunity for "someone with a bit of cash to spend" to invest in an oil well in the US. Michael suggested US$1000, but Kenneth offered to invest US$3000, feeling that "compared to what I had, it was a pittance really."
Making victim feel indebted	Kenneth noticed that the price of his shares on the stock market were falling. **At that time**, Kenneth was called by Robert, Michael's manager at Company A. Robert said that he had "done some short-selling" for Kenneth, resulting in him having made money despite the share price falling. Robert told Kenneth about Company B, a gold mine. He said Company B said he had to, "Get in line, there are other people interested [in investing]", but that he would go there and attempt to "work out a deal" for Kenneth.
Building friendship and trust	Kenneth describes Robert as "a personable sort of man, he talked the right talk, and he obviously knew all about stocks and shares and investments." Robert called Kenneth **two weeks later**, asking him to invest in the company's Initial Public Offering (IPO). Robert spoke to Kenneth about the "turmoil" of the financial markets and that gold was a safe place to invest his money. Kenneth was sensitive to risk related to the gobal financial crisis, from his own experience and that of his brother-in-law, and noted that gold was being discussed widely as a safe investment option.
Making victim feel indebted	Kenneth said, "I had no reason to doubt this man because he'd looked after, supposedly, my initial investment." Kenneth invested US$10,000 in the IPO.
Building friendship and trust	Robert called Kenneth fortnightly. **Two months later** he said a pension fund was looking to invest in Company B, and would pay at least US$8/share. Kenneth increased his investment to US$40,000.
Making victim feel indebted	**Six months later**, Robert said the pension fund deal was going ahead, but needed chunks of 100,000 shares. Kenneth said, "the psychology behind all of that is that once you're in a certain amount… you have to kind of keep going in a way, because you can't really retreat, it just kind of sucks you in." Kenneth began taking money from other investments to finance the fraud.
Intervention by Kenneth's bank and the FCA	Due to the number of transactions Kenneth made, a bank staff member suggested the investment may not be genuine and told him to contact the FCA. Kenneth phoned the FCA and was told they couldn't "guarantee the probity of transactions" with Company A because it was outside their jurisdiction.
Isolation of victims	Kenneth googled Company A and found negative comments about them online. He challenged Robert and contacted Company B, who confirmed that he held shares with them. Robert discredited the online comments, providing "plausible explanations" for all the concerns he raised.
Making victim feel indebted	Robert called Kenneth to say Company B had been affected by the tsunami in Japan (**2011**) and that his shares were "distressed". Robert said he could "salvage" his capital by purchasing £4,500 of shares in another company that would acquire his shares in Company B.
Withdrawing friendship	**Nothing happened for a while**, then Kenneth was called by a new person, Eric of Company C, who said he was managing Company A's insolvency.
Contact with the FCA	Kenneth contacted the FCA to ask for the details of the US regulator. The US regulator confirmed that Company C was fraudulent and not to "have anything to do with them." Kenneth cut off contact with Eric immediately.
Building trust and friendship	Eric's interest made Kenneth think his shares may have value, so he called Company B. They said Company A "let them down" and to expect a call from a different broker. Kenneth felt relieved: "I'm still in the ball game."
Isolation of victims	Company D called Kenneth, confirming Company B's story. Kenneth was told he had to 'demat' his shares for £9,000. "I did say to him, 'Look, is this the end, because I will not pay another penny?" Over the next **nine months**, Kenneth signed confidentiality agreements and received reports and legal documents.

Making victim feel indebted	"I got a call from a guy based in New York… [He said,] 'Look, we understand you had dealings with [Company A]. Well, we were brought in along with [Company D] to sort all this out', and he said, 'Look, I was given sort of 1,000 man hours to do this; we're already up at 2,500 man hours, so we're getting a bit frustrated, but it's not your fault, we'll get it done, but there was such a mess left by [Company A], etc etc. So, but kind of, 'We're on your side', and so on.
	Kenneth was told he needed to pay US$1/share to exercise the warrants on his shares. He paid £65-70,000 for the warrants.
Flattery and visceral appeals	Kenneth was told the price had gone up to US$30/share and he was "literally sitting on a goldmine." He was given online login details for a fiduciary bank in Panama, where he could see US$30 million had been transferred in his name.
Withholding friendship	The "chief guy" from Company E told Kenneth to say he needed to pay a 5% tax (£150,000) to the US government to release the money. Kenneth said he wasn't going to pay any more money, which made the fraudster "very upset."
Intervention from Kenneth's bank	Kenneth was setting up a new account with a high street bank, and mentioned the investment to them because he was starting to worry. They offered him a meeting with one of their investment bankers. The investment banker met with Kenneth and looked through the documentation, gently suggesting to him that it "doesn't seem right," but offering to check with the bank's representatives in Panama. He told Kenneth that he didn't think it was genuine and advised him to cut off contact.
Kenneth emailed his contacts at Company D and Company E to say that he knew what they'd done. **Two months later** he received a call from someone from Company D, but Kenneth politely said he wanted nothing to do with them and hung up.	

3.5 Summary

While the set-up of any particular fraud will require that fraudsters use the same veneers and deception mechanisms with all victims in that fraud, the grooming process is flexible and fraudsters adapt their approach to the victim's financial, family and psychological context.

4 Victims' decision-making and actions

The previous chapters have shown the interplay between different factors in people's lives that create a context in which they may be more or less susceptible to victimisation. Fraudsters then use grooming tactics to manipulate victims' vulnerabilities. Because financial crimes are perpetrated through coercive tactics rather than force, many victims feel complicit in their own victimisation and experience both self-blame and blame from others.

However, it is possible to challenge victim-blaming without entirely dismissing victims' agency. Applying Somerville & Bengtsson's (2002) theory of *contextual rational action*, this chapter describes victims' engagement with frauds and actions they take throughout the process. The context of victims' lives, manipulated through the deception and grooming mechanisms of fraudsters, create a situation, we will show, in which actions around investing become 'rational' for the victim.

4.1 Verifying the investment opportunity

For many of the participants in this study, it was important that we understood the range of ways they took action to verify the authenticity of the investment before transferring any money to the fraudster. In some cases, the limitations of participants' investment experience and financial social networks meant that the verification actions they took were inappropriate, while in other cases participants sought verification through appropriate channels and yet still received inadequate information or advice to disrupt the fraud.

Participants often reported that they didn't simply accept whatever the fraudster told them, but that they would **challenge the fraudster** directly, for example testing out their knowledge of the products they were selling. In some cases, fraudsters displayed insufficient knowledge which resulted in the participant not investing. However more commonly they were perceived as being far more knowledgeable than the participant themselves. This meant that for most participants, challenging the fraudster actually resulted in the fraudster being seen as more credible.

> They always have answers for everything. They're always too clever… It makes them more plausible, because you find that whatever questions you give them, they've got a good answer for it, and it makes them more plausible. Which is awful. They're very slick.
>
> *- Male, late 70s, share fraud & fraud recovery*

Participants didn't only rely on information provided by fraudsters to verify authenticity, but also conducted **independent research**, both online and offline. Often, this included "googling" information about the company offering the investment, and the company in whom shares or commodities were being purchased, or looking up the prices of shares or commodities in newspapers such as the *Financial Times*. Participants may also have contacted other companies supposedly involved in the 'deal'. However, participants didn't realise that the fraudsters were using multiple fraudulent companies to confirm each other's legitimacy, or were overly reassured by having the 'story' of the investment (for example, that the price of gold was going up) confirmed by independent sources.

> As far as [the FCA] were concerned it was a legitimate group [in Europe]. And I said, well what about the [company name] in London? And they said well, I can't tell you whether it's part of that organisation or not because we don't regulate them. So they said you'll have to get on to the equivalent of the FCA in the Netherlands. So I got onto them and they said the [company name] is a highly reputable company with 33 branches throughout Europe, no problem at all. But we cannot comment on a UK company. You'll have to go to the FSA. So I went to the FSA and they said sorry I can't give you any more information than we've already got.
>
> *- Male, early 80s, share fraud, land banking, carbon credits, diamonds, wines & fraud recovery*

A number of participants initiated **contact with professionals** prior to transferring money to the fraudster. This included contact with the FCA (or previously, FSA), international regulators, high street banks (including branch staff and investment managers), their existing (legitimate) broker, their accountant, the Citizens Advice Bureau and Companies House. Participants who had **contact with the FCA** had either checked the register of authorised businesses on the FCA website, or had contacted the FCA's contact centre to verify the authenticity of the investment. While some participants described this contact with the FCA as effectively disrupting the fraud, others felt that the information they received from the FCA was ambiguous or inconclusive, or in fact confirmed that the investment was genuine. This included:

- The fraudulent company being listed as authorised by the FCA and therefore the participant presumed that it was genuine. Participants were unaware of "cloning", and even reported that the company they were dealing with had the same phone number as the one listed on the FCA register. Seeing that the company was supposedly registered with the FCA increased participants' willingness to take a risk on the investment, believing that they were then "covered for mis-selling."
- FCA contact centre staff told the participant that they couldn't advise them whether the investment was legitimate or not, either because it was an overseas company not within the FCA's regulatory jurisdiction, or the product (for example, carbon credits) is not regulated by the FCA.

> And the FCA, FSA helped you, and they would say – I usually rang them up and said, 'This company, is it, is that viable?' They would sometimes say 'No, it's not. Forget it.' So I would. And I think it's important to refer to, the companies to the FCA, and in some cases they can't give you advice about overseas companies, but they can regards the UK. And of-course they always say, 'Don't accept a cold call.'
>
> *- Male, late 70s, share fraud, fraud recovery*

Participants spoke about the importance of receiving unambiguous messages at this point in the fraud, since ambiguous messages could be interpreted as implying that the fraudulent company was genuine. Even where the FCA was unable to give definitive advice as to whether or not the investment was legitimate, participants described that it was helpful when contact centre staff used the phone call with them as an opportunity to educate them about investment fraud, in particular by letting them know that legitimate brokers are not allowed to cold call.[2]

As well as the FCA, participants had **contact with other professionals** and described the importance of unambiguous messages in disrupting the fraud at this point. However, participants also spoke about the fraud being enabled by this contact, since they perceived professionals to have confirmed the company's authenticity. This included:

- Visiting Citizens Advice Bureau for advice on whether the company offering to sell their existing shares was legitimate. The participant reported that the CAB checked for them and told them, "you've got nothing to worry about, it seemed like a legitimate company."
- Discussing the investment with an investment manager at the participant's local branch of a high street bank, who confirmed that the investment "seemed genuine."
- Discussing the investment with their accountant, who said it appeared legitimate.

> I wanted [the investment manager from my high street bank] to have a look because that's what his job was and he looked at it. He looked through everything. It's all there – look. He said, 'Well I know about stocks and shares, I've done it over the years', like he said, 'That is perfectly, as far as I can see, that's perfectly legitimate, that is.'
>
> *- Male, early 70s, gold (boiler room)*

Finally, some participants discussed the investment with **family, friends or colleagues**. In some cases, people in participants' social networks expressed concern that the 'investment' could be fraudulent, however this tended not to change the participant's decision to invest. In fact, participant's social networks were often reluctant to be definitive about whether the investment was fraudulent, and this ambivalence was also interpreted as meaning the investment wasn't fraudulent. In some cases, participants expressed that the opposition of family or friends actually made them more determined to invest, since they wanted to prove everyone wrong.

So it appears that participants started out by 'hoping' the investment was legitimate. They then sought out information to try to reassure them of this through a number of formal and informal channels. These channels were often unable to provide a definitive recommendation regarding how the participant should proceed and this was taken by

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[2] Investment and mortgage financial promotion rules ban cold calling (which is called unsolicited real-time promotions in the FCA Handbook and legislation) unless certain conditions are met. Investment rules allow for three scenarios where cold calls could be made:

- the promotion is to an existing customer who anticipates receiving a cold call;
- the promotion relates to packaged products that do not contain higher volatility funds, or to life policies not connected to higher volatility funds; or
- the promotion only relates to readily realisable securities (but not warrants) or generally marketable non-geared packaged products.

them, given the context they were in, as actually further evidence the investment was likely to be sound.

4.2 Deciding to invest

Once participants reached the point of making a decision about whether to make an initial, or further, investment, they considered both financial and non-financial factors when evaluating whether the decision was rational within the context they found themselves in.

Commonly, participants' **financial considerations** focused on evaluating the likely risk of the investment compared with the potential gains. For some participants, grooming by the fraudster and their own verification activities suggested to them that the risk of the investment was low and the potential gains were high. For others, they recognized that the investment itself was risky, but felt that since they were only investing a small amount of their overall savings that they could afford to lose the money if the investment didn't work out. Further, several participants identified that the returns available to them through investing in the high street banks were so low that they would be better off seeking a higher return on their savings. Conversely, a participant who had engaged with the fraud up until this point decided not to invest because the fraudster requested an investment amount he didn't feel he could afford to lose if it went wrong.

Figure 4.1 Case study of Contextual Rational Action - Michelle
Michelle is 49 and works in the finance department of a large company. She began receiving calls on her mobile phone in early 2012 about investing in foreign exchange. A month later, she decided to invest £5,000. She received login details for an online account, on which she checked the balance weekly. She then invested another £10,000 in a "high yield account." Michelle mentioned it to a friend, who suggested it didn't sound right, so Michelle contacted the FSA and Liffe, who both said they didn't know of the company. Michelle asked to withdraw her money, and although the fraudster attempted to argue with her, a couple of weeks later they returned her capital of £15,000 with £2,500 interest. Below, we use the framework of contextual rational action to explain what happened next.
Context ***Financial*** – Michelle had £17,500 sitting in a bank account earning minimal returns. Although the FSA had said the company she dealt with wasn't regulated, and her friend raised concerns, they had actually paid out her capital plus 16% interest on a three month investment. ***Psychological*** – Michelle describes herself as more adventurous than other people, that she enjoys taking a risk and that she always has "drama" in her life. She also suffers from depression and insomnia, which she was experiencing at this time.
▼
Mechanism
Making victim feel indebted – Michelle had accused the company of being fraudulent, but the fact that they'd given her money back with interest made her feel that she had perhaps judged them unfairly. ***Withholding friendship*** - After returning Michelle's money, the fraudsters stopped contacting her altogether. This changed the dynamic of the relationship, making Michelle feel that any re-engagement would be at her instigation and that she would be in control.
▼

Figure 4.1 Case study of Contextual Rational Action - Michelle

Contextual rational action

- The evidence available to Michelle suggested that the investment she had made previously was genuine, since she had received an excellent financial return.
- The FCA had not told Michelle that the company was fraudulent, only that they weren't regulated by them.
- The company hadn't attempted to persuade Michelle to reinvest, so she didn't feel under pressure
- **In this context, Michelle chose to re-contact the fraudster and reinvest her money, and also encouraged a friend to invest. A few months later, the fraudulent website was shut down by the FCA and she lost all her money.**

So I left it a few more months and then I thought, well, maybe, maybe they were, you know, above board… so I thought, well, I've got this money sitting in the bank not doing anything so I contacted them and they were still on the same number.

Participants also considered **non-financial personal benefits** that would result from investing, such as increasing their financial skills and having more direct control over their investments than they would have through purchasing an investment product from a high street bank. Within this, some participants spoke about **enjoying risk-taking**, a behaviour that Lyng (2005) conceptualizes as 'edgework' – active risk-taking whereby the motivation to do so can lie in the experience. Lyng suggests that people are drawn to edgework activities by the "intensely seductive character of the experience itself." These participants often spoke about taking a risk on the investment as "exciting" or "fun", described the investment as a "gamble" or a "game", and described getting a "buzz" out of it.

I suppose the fun part of it [was] because the other investments were all in safe companies. So you know to do a little bit, um, that was more risky, but yeah as I say, potentially, sorry, very profitable. You know, that was [deep breath], that was fun.

- Female, early 40s, share fraud & land banking

However, some participants also felt that they didn't properly evaluate the decision to invest at this point, because they **felt under pressure** from the fraudster to make a decision quickly. These participants were particularly likely to feel that they would have benefitted from taking time to reflect prior to investing, and that this may have stopped them investing.

4.3 Responses to the fraud

Participants' responses to finding out that the investment was fraudulent provide insight into the potential to prevent re-victimisation.

4.3.1 Emotional and relational responses

Participants described experiencing a range of emotions when they realised that the investment was fraudulent, including disbelief and surprise, anger, shame and guilt, anxiety and panic, and hopelessness. One participant who had been victimised over three years described feeling "crushed", comparing the feeling to how he felt when his wife died.

Shame and guilt were particularly important emotions, and could result in victims choosing not to disclose their experience to people close to them, including partners and immediate family members. For those who did choose to disclose the fraud, or had no choice but to disclose it, they often felt further shamed because people tended not to perceive them as a victim of crime, but rather that the fraud was their own fault and due to poor judgement. As we have shown however fraudsters employ sophisticated and sustained techniques, which appear to interact with particular contextual circumstances to lead to the fraud. Participants described how the "victim-blaming" that occurred on disclosing the fraud created conflict in their relationships, and exacerbated their negative emotional responses to the fraud.

4.3.2 Help-seeking behaviour

Once they identified the investment as fraudulent, participants sought help from a range of agencies. Due to the study's recruitment design, participants had all either reported the fraud to the FCA online or by phone, or were contacted by the FCA's Unauthorised Business Department (UBD) who advised them of that fraud. Participants also reported seeking help from other agencies, including reporting online to Action Fraud, in person at a police station, or to their bank, or seeking help from accountants, Independent Financial Advisors and solicitors. Participants described a range of responses to reporting, from simply submitting a report that they received no further contact about, receiving a letter from the police advising them of their crime reference number, through to being involved in a full investigation of the fraud that led to a court case and conviction. Participants hadn't always reported all the investment frauds they had experienced, viewing it as not being important enough to report or feeling that reporting would not achieve anything, so instead "writing it off as bad experience."

Reporting to the FCA's Unauthorised Business Department (UBD)

Participants who had given evidence to the UBD as part of an investigation were generally positive about the way they were supported by the FCA. Victims described UBD staff as "excellent" and appreciated that UBD team members understood that they were now wary of trusting people they didn't know and so made an effort to provide information that verified their authenticity. Importantly, UBD investigations made victims feel as though their case was being taken seriously and that they were recognised as being victims of a crime. Even so, victims described dissatisfaction with the amount of their money that was able to be retrieved as a result of the investigation, feeling that despite the fraudsters being convicted in court, the lack of money retrieved reflected that in reality, the FCA have "no power at all to sort of do anything about it."

> [The UBD team were] very kind of open-minded, kind of approachable, you know, taking me seriously and they did, to be honest, they were fantastic. They were always available and he'd always ring me back and things like that… they were very good, very good and it's good to be able to talk to people who are high up like that, isn't it, in those sort of industries? You know, you feel there's someone on your side, don't you?
>
> *- Female, early 40s, share fraud and land banking*

Reporting to the FCA online or through the contact centre

> As soon as I said that they weren't regulated, [the FCA] did not want to know, they really didn't care and I just felt – I mean obviously I'm not going to be happy anyway, but it's like they were smug about it… 'cause straight away she says, 'Well they're not regulated by us', so that was it, really short phone call… by that time I just thought another useless government department, just a waste of time, you know, people paid far too much money to not do the job properly.
>
> - *Female, late 40s, share fraud & fraud recovery*

Participants who had contact with the FCA through the call centre or through reporting online were more mixed in their views about the help they received. On the one hand, some participants were positive about their contact with the call centre, appreciating that they were able to get through straight away, that FCA staff were knowledgeable and that they provided concrete advice that helped the participant avoid further victimisation, such as advising them that regulated brokers should not be making cold calls. Participants who found the FCA less helpful generally felt that their complaint wasn't taken seriously, and that they were being blamed for investing with a company that wasn't regulated by the FCA. They also described feeling that they'd taken the time to provide detailed information about the fraud, but received no information back from the FCA as to how that information was being used, if at all.

Reporting to the police

Participants described feeling confused about which agency they should be reporting the fraud to, and that they often got told by the agency they first reported to that they needed to report to someone else. Perceptions of the response they received from the police, including Action Fraud, were similarly mixed to perceptions of the FCA's response. Participants who had their fraud investigated were generally positive, while those who didn't were less positive.

Participants reported that their report to the police wasn't taken seriously because the amount of money they'd lost was perceived by the police to be insignificant. A participant who had lost £4,000 in a boiler room share fraud reported it to the Serious Fraud Office, who he said told him "when it hits a million [pounds], then we'll be interested."

> To go to the police I regarded as a waste of time because all they're gonna do is put it on record and somebody might or might not pick it up somewhere. Really the impression I have is they're really not interested in, unless it suits them, you know, for whatever reason. So I didn't want to go through the gambit with them.
>
> - *Male, late 60s, share fraud*

Implications of the response victims receive from authorities

We found that victims' confidence in the ability of authorities to investigate the fraud and hold fraudsters accountable is clearly central to both disruption and prevention.

Participants described being sympathetic to the large task authorities faced in responding to the scale of investment fraud, and perceived that it was impossible for the authorities to investigate every reported fraud. However, this also meant that they felt they shouldn't report frauds that might be perceived as "small" in the future, or that they may even discourage others in their financial social networks from doing so. Those we spoke to who had experienced multiple frauds described choosing not to report subsequent frauds since they didn't believe that this would achieve anything.

Participants also described feeling angry and frustrated that despite reporting the fraud, whether to the FCA or Action Fraud, since no investigation had taken place, the fraudsters had "got away with it." When participants felt that their report wasn't taken seriously by the FCA it compounded participants' existing prejudices about the FCA, which fraudsters are adept at manipulating. Perceptions of the FCA as powerless, useless, "true blue civil servants" leaves victims particularly vulnerable to recovery room fraud, and specifically cold contact from fraudsters purporting to be representing a group of victims of the same fraud to bring a case against the fraudsters. Fraudsters successfully manipulate victims' antipathy towards authorities to engage them in a recovery room fraud where they are re-victimised.

4.3.3 Ongoing engagement with the fraudster

There was variation between participants as to how easily they were able to disengage from the fraud. Many participants experienced **fraudster-initiated disengagement**, when the fraudster suddenly cut off contact and became untraceable, while others experienced **official disruption**, where they became aware of the fraud when it was shut down by the FCA or police.

> [My parents are] both manual workers and didn't earn much but they didn't spend much either, so they've saved… So the fact for somebody to come and then, they'd probably spend it on like cars or something like that, or holidays or whatever. That's what hurt them. I even sent a letter to him 'cause I was mad that the fact that they'd taken it out from somebody that's worked hard.
>
> *- Female, late 30s, share fraud*

However, other participants became aware of the fraud in different ways:

- The **interventions of others** alerted them to the fraud, or confirmed the participant's own suspicions. These interventions included staff at their bank querying the transaction or the participant's solicitor or Independent Financial Advisor raising concerns when the participant told them about the investment. Several participants described people other than the FCA intervening to disrupt the fraud, although not all participants who experienced interventions were persuaded that the investment was fraudulent.
- The **behaviour of the fraudster** raised the participant's suspicions, leading them to conclude the investment was fraudulent. This included a wide range of behaviours, such as receiving "amateur" documentation, feeling that the fraudster was being too "hard sell", being asked for additional fees or expenses before their money could be released, or the 'story' of the investment becoming inconsistent (for example, offering to purchase one of a number of blocks of land the participant held, when the story was that the purchaser needed all the land for a large development).

Participants who identified the fraud through the interventions of others or through the behaviour of the fraudster described finding the process of disengaging from the fraud challenging, leaving them vulnerable to ongoing victimisation. The fact that they were still in contact with the fraudster led to **attempts to negotiate** with the fraudster to return their money (for example, negotiating down the amount of money they needed to pay to supposedly release the investment), or **attempts to shame** the fraudster into returning the money (such as writing to them to explain how the fraud had impacted on them).

> I'm still addicted to this drug if you like. What's happened since mid-year is that I have been playing games with them basically, to try and catch them out here and there and to see if their knowledge is as great as it should be. And um, I'm sad to say that I've actually been investing allowing the monies to bounce to see what actually happens and on one occasion the transfer, the receipt had gone through and the monies had gone through in inverted commas, even though I hadn't actually paid any.
>
> *- Male, early 40s, share fraud*

Some participants also described **deceiving the fraudster**, such as by letting agreed payments bounce, "stringing them along" in order to elicit information they could report to the authorities, suggesting that they had a wealthy friend who was looking to invest in the scheme, or lying about having financial or personal crises in their life that meant they could no longer afford to invest. Despite understanding that they were being defrauded, participants who attempted to deceive the fraudster sometimes expressed feeling guilty for doing so, or concern that they themselves might be behaving illegally.

Generally, participants who successfully disengaged from the fraud describe giving a clear, firm message that they would not be making any (further) payments to the fraudster.

4.3.4 Implementing strategies to avoid further victimisation

Following their experience of being victimised, participants identified a number of strategies they now implement to protect themselves from being victimised again in the future.

- **Avoidance**: not taking any cold calls, registering with the Telephone Preference Service, only investing through high street banks or not investing at all.
- **Insurance**: making payments on a credit card or through a solicitor, so that they are insured.
- **Verification**: checking the FCA register, only meeting with brokers face-to-face, asking for evidence of company profits
- **Education**: undertaking financial training, only investing in things they understand.

However, some of these strategies are problematic in that they limit participants' activities (such as not investing at all), and many would be insufficient protection against re-victimisation (such as asking for evidence of company profits).

Victims also identified a range of other strategies they now implement that illustrate that while they are able to learn from their own experience, they may then implement "protective" strategies that we know from other victims' stories can actually be ineffective: avoiding companies with low quality printed materials, not investing further unless they receive returns, not taking overseas calls, only investing with companies who send printed information in the mail, not making long-term investments, talking to other people before making an investment, and testing the caller's knowledge of the product.

4.4 Victims' ideas for prevention interventions

As well as implementing self-protective strategies, participants shared ideas for interventions which they believed may have been helpful in preventing them from investing. These suggestions fell into three broad categories: high profile media campaigns, targeted awareness-raising, and word of mouth.

- **Media campaigns**: participants suggested articles about investment fraud in the financial press and broadsheet newspapers, or programmes about investment fraud on television. They highlighted the importance of emphasising the sophistication of these types of frauds, and of communicating real life stories of people they could relate to. However, participants also noted the challenges in reaching them through media campaigns, suggesting that articles and programmes are more effective than advertisements, or that an advertisement would have to present "something really horrible" to be noticeable and taken seriously.

> Maybe if I'd seen on the TV some big, big advert saying, 'Stop, look, you know, people are ringing up or, you know, trying to get you to invest in shares, do not do it', that would have – well, alarm bells would have been ringing, wouldn't they? But I didn't know about all this, I really genuinely didn't.
>
> *- Female, early 40s, share fraud and land banking*

- **Targeted awareness-raising:** participants felt that they may pay more attention to prevention messages if they were targeted to them in particular contexts, such as receiving a flyer with their annual shareholder statement or letters they received from Companies House, or having posters up in places they trust such as the Citizens Advice Bureau.

- **Word of mouth:** participants felt that it would help to hear about investment fraud from people they knew and trusted, since this would mean that victims' stories were more relatable to their own situation. An example of this might be stories shared through friends on social media.

> I think one of the most effective things you see… on the social media is people passing on, sharing stories of things that have happened… something they say happened to a friend of their aunt or something like that… they have an idea of how credible that [Facebook] friend is on that issue… [it] seems to be a fairly powerful way of getting messages across.
>
> *- Male, late 40s, no victimisation*

4.5 Summary

The accounts of victims of investment fraud demonstrate that their action goes beyond a simplistic, hasty decision to transfer money to a fraudster, but that they actively engage with the process of a fraud, both in attempts to verify its authenticity before transferring money and in attempts to repair its harm afterwards. However, the interplay of contextual factors in their lives and the deception and grooming mechanisms used by fraudsters limits the space in which they can act and makes their ‘choice’ to transfer money rational.

5 Victim typology for understanding financial crime

In their literature review for the National Fraud Authority, Button, Lewis & Tapley (2009a) characterised four types of fraud victims: unknowing victims, knowing victims who don't report, knowing victims who do report, and unbelieving victims. The accounts of victims of investment fraud in our study supports this typology, however their accounts also illustrate how fluid these characterisations can be. Many participants were victimised more than once, and may have known about one fraud and either reported or not reported it, and then been an unknowing victim of another. While it was difficult from the position of researcher to be clear whether different investments participants spoke about were fraudulent or not, some participants had identified one fraud and reported it while remaining unbelieving and/or potentially unknowing victims of other frauds. As well as being very fluid, a typology based on victims' understanding of the fraud and reporting behaviour does not adequately explain differences between the behaviours and decision-making processes of victims of financial crime.

5.1 Typology overview

The chapter sets out a typology of four types of victims of financial crime, shown in Figure 5.1 below. The typology is based on eight dimensions, taking into account the interplay of the context of victims' lives, the mechanisms used by fraudsters, victims' "contextual rational action" within the fraud, and addressing differences in the impact the fraud has on different types of victims.

Table 5.2 provides an overview of the dimensions of the typology. It is important to note that victims may move between typology groups over time. For example, some 'Dabblers' experienced official disruption or fraudster-initiated disengagement soon after making a payment, and it is possible that if this hadn't happened, they may have engaged for longer and become 'Providers' or 'Adventurers.' Similarly, following identification of the fraud, 'Providers' may adopt avoidant strategies and become risk averse.

Figure 5.1 The four typologies

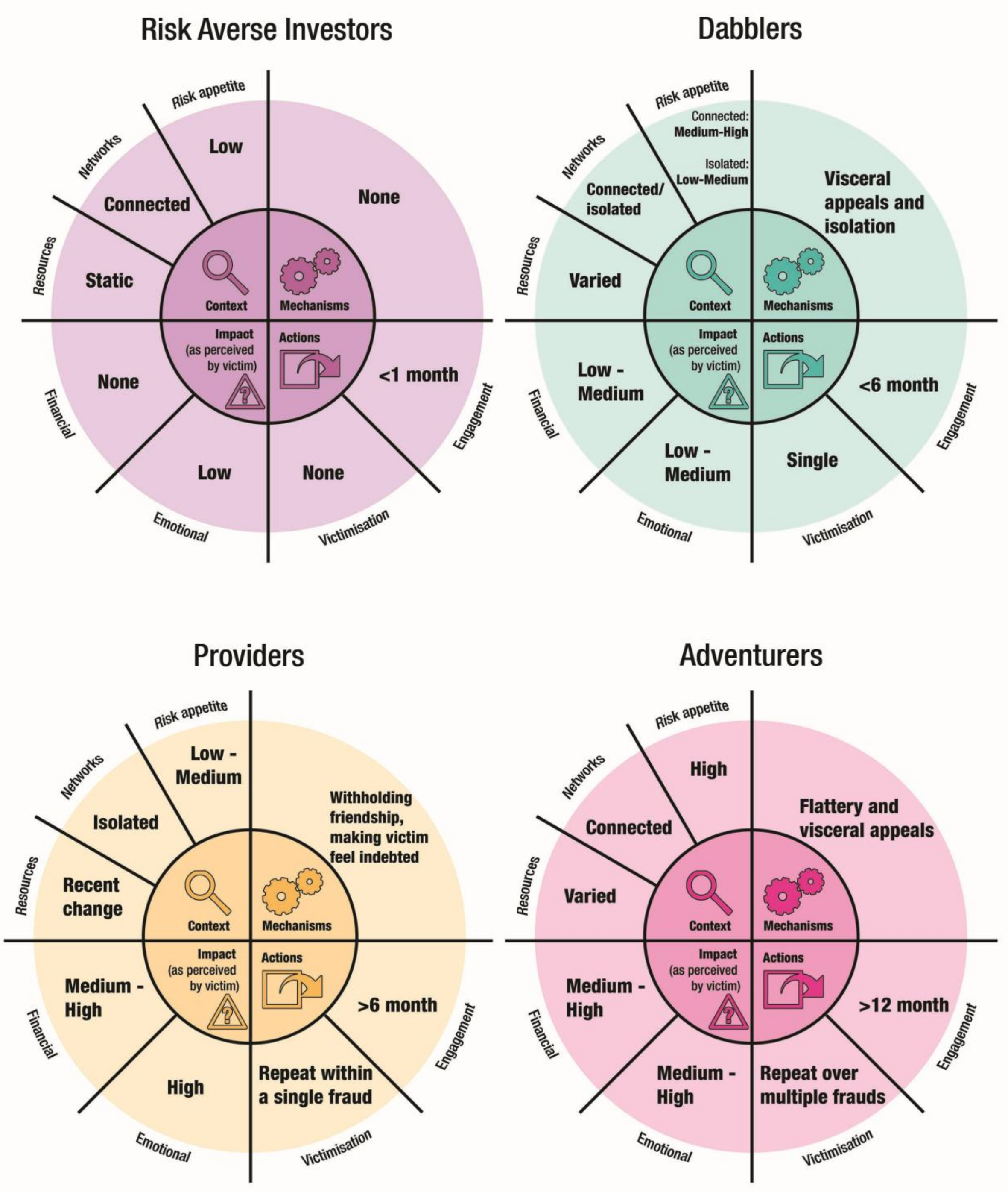
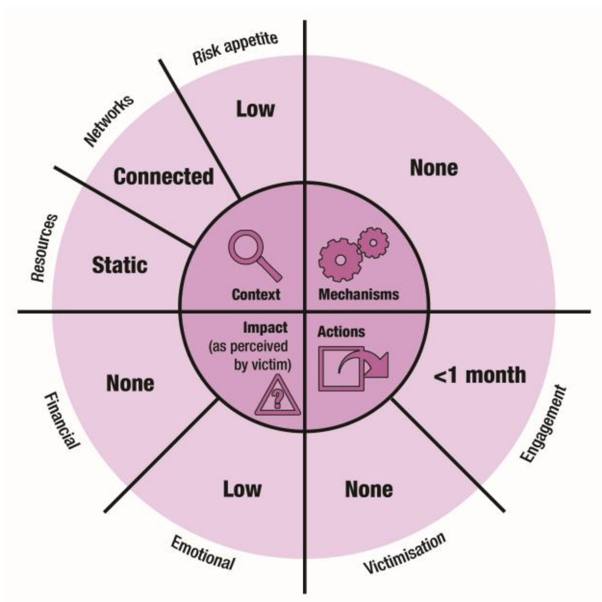


Table 5.2	Overview of the victim typology dimensions				
		Risk averse	**Dabblers**	**Providers**	**Adventurers**
Contexts	**Financial resources**	Static	Varied	Recent change	Varied
	Financial social networks	Connected	Connected/ isolated	Isolated	Connected
	Risk appetite	Low	*Connected dabblers*: medium – high *Isolated dabblers*: low - medium	Low - Medium	High
Mechanisms	**Effective grooming tactics**	None	Visceral appeals and isolation	Withholding friendship, making victim feel indebted	Flattery and visceral appeals
Actions	**Longest engagement with a single fraud**	< 1 month	< 6 months	> 6 months	> 12 months
	Victimisation type	None	Single	Repeat within a single fraud	Repeat over multiple frauds
Impact (as perceived by victim)	**Financial**	None	Low - medium	Medium - High	Medium - High
	Emotional	Low	Low - medium	High	Medium - High

5.2 Risk Averse Investors

Risk Averse Investors engaged with the fraud for less than a month and didn't transfer any money to the fraudster. **Contextually**, they have money available to invest, experience of investing, and people who they discuss their finances with. They describe their own personality as cautious and sceptical, and that they have a risk averse investment strategy. Fraudsters were able to engage Risk Averse participants through **deception** tactics and visceral appeals, with participants describing being "intrigued" by the fraudster's offer and



therefore initially engaging cautiously. However, since Risk Averse Investors are not interested in taking risks with their money, they were particularly sensitive to perceived inconsistencies in the fraudster's story. This means that they always took **action to verify** the investment, and if they have any suspicions at all, decide that it's not worth taking a risk.

However, this doesn't mean that they are immune to victimisation. Risk Averse Investors may be persuaded to transfer money if the fraudster was sufficiently skilled at allaying their concerns. For example, in the case study outlined in Figure 5.2 below, the participant described a range of factors that made him suspicious, but said that ultimately he was convinced not to pay a bond to guarantee sale of his shares because the fraudster made an error in suggesting that he owned more shares than he actually did. However, other participants who were victimised through similar frauds have described how fraudsters offered plausible explanations for why they suddenly had more shares than they thought they did, which they accepted.

Risk Averse Investors, despite not having lost any money, feel that enforcement activities against fraudsters are important and so sometimes choose to have **ongoing engagement with the fraudster** in order to elicit sufficient information to report the fraud to the FCA.

Figure 5.2 Case study of a Risk Averse Investor - Thomas

Thomas, in his early 60s, is a retired teacher whose elderly mother received a cold call asking her to sell shares she already held. His mother has a hearing impairment and so asked him to handle the call. He also regularly receives cold calls about potential investments, including shares, carbon credits, gold, rare metals and diamonds.

> It was very clever, a very sophisticated way in which they talk to you… and I think that people may imagine that a scam is not quite as sophisticated as this.

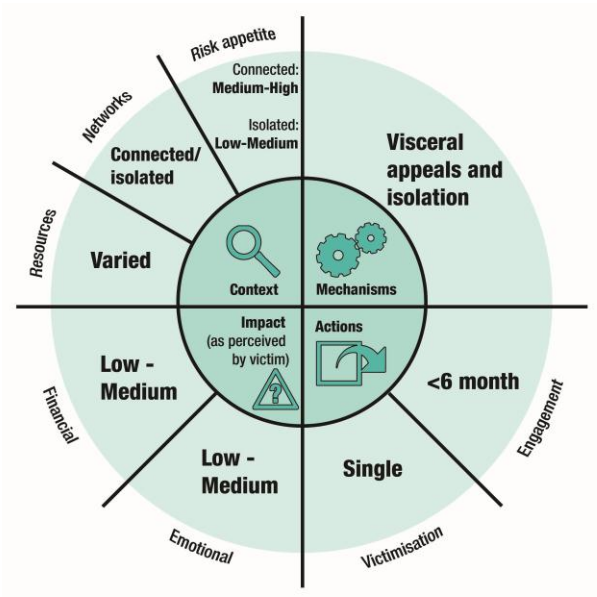
Fraud overview: Thomas was contacted by cold call and asked whether his mother would be interested in selling her shares. Over two weeks, the fraudster went back and forth to him with calls, purporting to be negotiating with their client who was attempting a hostile takeover. He was told he would have to put up a £4,600 bond to guarantee sale of the shares. Thomas described himself as being suspicious, but continued engaging because there was no loss to him in doing so. Throughout, he conducted his own research online, contacting the company with whom his mother held shares, the bank the bond was supposed to be with, and checked the number of shares his mother held. He decided not to transfer money because the bank offering the bond offered a suspiciously specific confirmation about the deal, and the fraudster said that his mother held more shares than she actually did. This meant that if he paid a bond for the sale of the number of shares they said she held, they wouldn't be able to deliver on that even if the sale was genuine.

Context		Mechanism	Action		Impact	
Finance – static	*Connected financial social networks*	*No effective grooming strategies*	*Engagement < 1 month*	*No victimisation*	*No financial impact*	*Low emotional impact*
▼	▼	▼	▼	▼	▼	▼
Retired, supplements his income with returns from	15 years' experience investing in shares through a	"Highly suspicious from the start" due to being	Engaged in a number of phone calls over 2 weeks	Signed a confidentiality agreement but didn't transfer	No money transferred.	No emotional impact.

investments.	broker. Describes himself as ‘confident’ with investing.	offered four times above the current share price.		money.		
▲	▲	▲	▲	▲		
Was aware of boiler room frauds, but didn’t expect it to be so “sophisticated” or “long-winded.” Suggested it would be helpful to read an article with case studies in the *Sunday Times* Money section.		Went to website of company his mother held shares in, where they had information about frauds involving their shares, as well as contact details to report frauds to the FCA. He reported the fraud a couple of days after disengaging from it.				
Opportunities for disruption						

5.3 Dabblers

Contextually, dabblers have money available to invest (although in widely varying amounts) and are particularly susceptible to **grooming** tactics based on visceral appeals related to achieving a quick, high return on their money. They were either victimised just once, or if they were re-victimised, this didn’t happen after they became aware of one or more of the frauds. People in this group were sceptical of the fraudster’s offer, thinking it probably did seem “too good to be true”, however the potential rewards if it wasn’t fraudulent were perceived as being worth making a small risk with money they felt they could afford to lose.



Within this group, there are two sub-groups: dabblers who had **connected** financial social networks, and those that were **isolated** financially. Dabblers who didn’t have financial social networks often sought to verify the authenticity of the investment through less appropriate avenues and therefore received poor advice. An example is a participant who sought advice from the Citizens Advice Bureau rather than the FCA. Dabblers who were well-connected, on the other hand, often didn’t seek advice from their financial social networks before transferring money. This was because unlike isolated Dabblers, connected Dabblers took more seriously the tactics that fraudsters used to isolate them from their networks, such as the use of confidentiality agreements, and didn’t feel able to talk to anyone about the investment before transferring money.

Since Dabblers only transferred money that they felt they could afford to lose, the financial **impact** of the fraud was limited. They also describe a low to medium emotional impact, however this should not be seen as inconsequential. These participants described feelings of shame and "foolishness", and feeling upset that the fraudster had treated them and their families with such disregard.

Figure 5.3 Case study of a Dabbler - Derek

Derek is a retired property lawyer in his seventies. He is married, and was interviewed for the study with his wife, Louise. Derek has invested in a range of different types of shares since the 1980s, and has enjoyed some success. Derek regularly received phone calls and emails informing him about investment opportunities; he believed people had been able to obtain his contact details through previous investments.

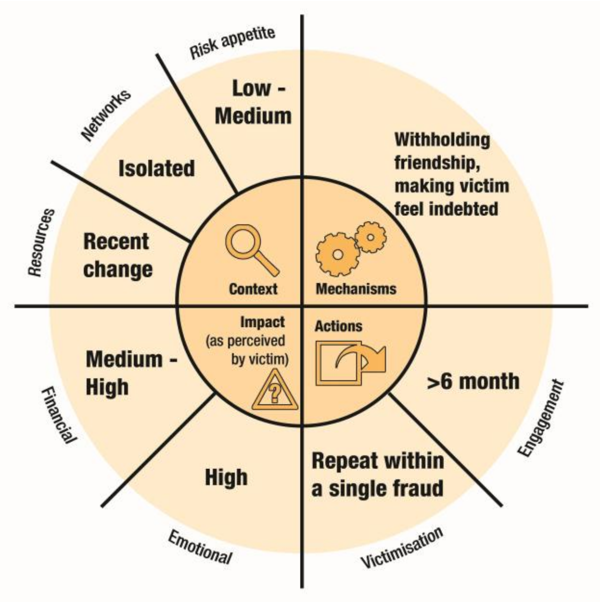
> Louise: A feeling of gutted. Absolutely horrified.
> Derek: No, I just felt stupid, I didn't feel gutted.
> Louise: I did, I felt gutted.
> Derek: Yes, I know you did, but I just felt stupid, I just felt that looking back on it I was, I was very foolish.

Derek received a cold call inviting him to buy shares in companies which were about to float on the US stock exchange. He initially refused to invest, but then received daily phone calls about the shares. It was always the same person who got in touch with Derek; he had a friendly manner and was well-spoken. The caller provided lots of information about the shares he was trying to sell to Derek over email, and directed Derek to the company's website, which also contained detailed information about the shares. The caller told Derek his company was registered with the FCA. Derek was eventually convinced to invest a small amount of money, which he felt he could afford, and chose shares in a company he knew of from his former work as a lawyer. Derek was told he would not be able to sell the shares for three months, which seemed reasonable because the company was only just being floated. Derek saw that the shares were going up significantly in price, three times what he supposedly paid for them. Derek contacted the "broker" to discuss when he'd be able to sell. When Derek was unable to get through, he realised that he had been defrauded.

Context		Mechanism	Action		Impact	
Finance – static	*Connected financial social networks*	*Visceral appeals and isolation*	*Engagement < 6 months*	*Single victimisation*	*Low financial impact*	*Low-medium emotional impact*
▼	▼	▼	▼	▼	▼	▼
Financially comfortable has money available to invest.	Lengthy experience of investing, discusses finances with his wife.	Derek feels he was "greedy" and was persuaded by the idea of tripling his money.	Transferred money after a few months of contact, identified the fraud a couple of months later.	Derek reported the fraud as soon as it was identified and no longer invests through cold calls.	Lost £4000, which he describes as an amount he could afford to lose.	Derek and Louise were upset at what happened to them and Derek feels "stupid."
	▲	▲		▲		
Derek and Louise have a close relationship and discuss finances, and he has an accountant, however he didn't discuss the investment in detail with them.		Derek didn't contact the FCA before transferring money, as the fraudster told him they were FCA-registered and he believed this.		Derek reported to the FCA after identifying the fraud. He was advised that genuine brokers don't make cold calls, and now only invests through a broker used for many years by a trusted family member, who he and Louise meet face-to-face.		
Opportunities for disruption						

5.4 Providers

Providers have engaged with a single fraud over a long period of time, in this study at least 6 months but up to 3 years. **Contextually**, people in this group are isolated in terms of their financial social networks. They are inexperienced with investing, either having never invested or having only invested in standard investment products available through the high street banks, such as ISAs. They described recent changes in their financial or personal circumstances at the time they were contacted by the fraudster, putting them under pressure either to make a financial decision or under psychological pressure, or both.



Typically, Providers perceive themselves as financial providers for themselves and/or their families, reporting feeling immediate pressure to earn more money to spend time with their families, through to needing to provide for themselves in old age because of their lack of family or to support their adult children.

In **grooming** these victims, fraudsters were particularly effective in using tactics to make the victim feel indebted to them, and then playing with giving and withholding friendship from the victim. As these victims are engaged with a single fraud over a long period, the fraudsters often reinvent the story of the fraud several times, with one company supposedly taking over another and the victim receiving contact from a new person. This creates a situation where victims are suspicious, but also financially isolated and desperate to have their capital returned, which keeps them engaged in the fraud.

For Providers, both the financial and emotional **impact** of the fraud is high. While the initial amount they transfer to the fraudster is something they can afford to take a risk on, this escalates over time, to the point where they've lost a large portion of their savings or even gone into debt in an attempt to recover their capital. Providers describe significant psychological and physical health impacts, including depression and anxiety, as well as impacts on their personal relationships.

Figure 5.4 Case study of a Provider - Susan

Susan is in her late 40s, used to own her own business, divorced and has a large family. She received a cold call about investing in shares. The initial call was for her ex-husband and she believes that fraudsters trawl through lists of company directors so they know who to target.

> The business was at its height … I think I was looking for a way out…I'd taken the children [on holiday] and…I got a call [about an issue with the business] I just did the right thing, packed up and came home… I just thought I've had enough of this.

Fraud overview: Susan answered a cold call which was for her ex-husband about investing in shares. She was recently divorced and felt that this investment opportunity would mean she could stop running her own business and spend more time with her children, as she would make the money relatively quickly. The amounts she invested started at around £3,000, and then increased over time. The phone calls always had busy background noise as though they were being made from a stock exchange, and the shares were in companies related to topical news stories which made them more believable to her. Susan said that the phone calls became more pressurised over time. The share certificate took longer to arrive than she expected and when she did receive it, it had ‘restrictive’ written on the back. The fraudulent company recommended a broker in America who may be able to sell her shares for her, and that broker told her it was a fraud. Afterwards, she was called by someone who claimed that they could buy the ‘shares’ and was revictimised.

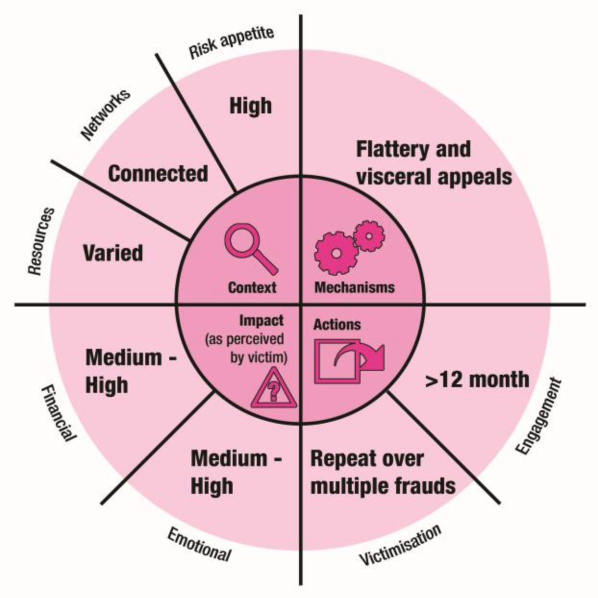
Context		Mechanism	Action		Impact	
Finance – recent change	*Isolated financial social networks*	*Withholding friendship, indebtedness*	*Engagement > 6 months*	*Repeat victimisation (single fraud)*	*Medium-High financial impact*	*High emotional impact*
▼	▼	▼	▼	▼	▼	▼
Financial resources from the recent sale of her business.	No investment experience, nor social networks she discussed finances with.	Fraudster screamed: “You’ve got to find the money,” and implied they didn’t have time to answer questions, as other people were waiting to buy shares.	Not specified, but was engaged over a number of months.	Transferred multiple amounts to the fraudster for shares in a range of companies. Transferred money to a second company who said they could sell the shares.	Fraud has considerably reduced her savings, and she had to pay tax on earnings that she’d already lost in the fraud.	Felt ‘stupid’, ashamed about what she could have done with the money, it affected her moods. Tries not to think about it now but still gets that “sick” feeling.
		▲	▲	▲		

Susan’s advisor at her bank gently queried the transaction, asking how much she knew about the company. Susan described that she became defensive in response to this questioning and went ahead with the transfer.

Susan only contacted the FCA and the police after the fraud. She reported that she found the FCA unhelpful, but found the police understanding and supportive, and ultimately they brought a prosecution at which she testified.

Opportunities for disruption

5.5 Adventurers



Adventurers describe themselves as enjoying the process of taking a risk, and get a thrill out of investing. Unlike Dabblers, who are willing to take a small risk with money they can afford to lose, Adventurers are willing to risk large portions of their savings and are repeatedly victimised, both within single frauds and across different frauds, despite receiving interventions from others that advise them of the fraud. Despite having connected financial social networks, they tend to disregard the advice they receive from these networks. **Contextually**, Adventurers themselves talk about their personality and attitudes to risk as a factor in their victimisation, suggesting that they are generally open to trying new things and being adventurous. This openness to risk and adventure is reflected in their life experiences, such as having lived in different places around the world, serving in the military, or thriving in insecure employment. Fraudsters were particularly effective in **grooming** Adventurers by flattering them and appealing to their desire to be successful in investing, which is separate to desires related to the actual financial return.

Adventurers have **connected** financial social networks and discuss the investment with others, however they are particularly resistant to suggestions from others that the investment is fraudulent. This is perhaps related to their perception of other people as more cautious than themselves, and since they both enjoy risk-taking and have experienced the positive benefits of risk-taking in their lives, they may feel that others are being unnecessarily cautious.

Figure 5.5 Case study of an Adventurer - Lisa

Lisa is in her 40s and has had a varied career in the hospitality sector, both in the UK and abroad. She describes herself as comfortable financially and has invested on and off from a young age.

I think I love adrenalin I think as well, people with – who want an adrenalin rush, the excitement of it all. You see, I can't live a normal life without something going on… I live on the edge basically but I am able to, you know, have the backup of some money behind me that I've saved, so that's not really living on the edge.

Fraud overview: Lisa was cold called by someone who appeared to be from a market research company. They asked her a few questions for research purposes, but she did not think anything of it. Lisa mentioned she wanted to make money and was happy to take risks. A few weeks later, Lisa received another call inviting her to invest, and was asked her how much she was comfortable investing, to which she said £2000. This caller was happy with this amount, and so Lisa made the transaction and expected to see a quick return on her investment. Several weeks later the participant was invited to invest more, and was handed over to 'the boss', a supposedly senior figure, who she describes as posh and well-spoken. He told Lisa about how he had made lots of money at a young age, and hinted that she too could be very wealthy soon. When she expressed doubt about investing further she was guilt-tripped; the caller made her feel bad for not believing in

him. However, the Lisa did not see a quick return on her investment and so tried to get in touch, but she was unable to; it had all gone quiet. It was at this point she realsied the investment was not genuine.						
Context		**Mechanism**	**Action**		**Impact**	
Finance – varied	*Connected financial social networks*	*Flattery and visceral appeals*	*Engagement > 12 months*	*Repeat victimisation (multiple frauds)*	*Medium – High financial impact*	*Medium – High emotional impact*
▼	▼	▼	▼	▼	▼	▼
Static – no recent change in available resources.	Lengthy experience of investing, including through pooling finances with family members.	Felt flattered by being transferred to 'the boss' and at the prospect of being rich like him.	3-6 months in this fraud.	Repeat victimisation within a single fraud and across multiple frauds.	Lost £4800 through the fraud described above, which is a large portion of her savings.	High emotional impact, now has difficulties trusting people.
	▲			▲		
Lisa's partner warned her that it did not seem credible, but she felt that he was mistaken. She wanted to show him that she was right, and would ultimately make lots of money.				Lisa says she is the sort of person who wants to make a lot of money quickly. She believes that seeing a hard-hitting advertisement, warning about financial frauds at the right time could have prevented her from investing.		
Opportunities for disruption						

Adventurers experienced repeat victimisation, both within a single fraud and across multiple frauds. While the financial and emotional impact is not generally as high for Adventurers as it is for Providers, it is still medium to high in both domains. Adventurers tend to have been defrauded of a high amount of money, both objectively and in their own perception, with one Adventurer losing approximately £250,000 in multiple frauds over a number of years. Adventurers describe feelings of shame and anger about the frauds they've experienced, as well as the conflicts their repeated victimisation causes between themselves and their family and friends.

5.6 Summary

We found four broad types of people affected by investment fraud in this study: Risk Averse Investors (who did not fall victim to fraud), Dabblers, Providers and Adventurers. People in each of these groups experience different contextual factors in their lives, including motivations for investing, and are susceptible to different grooming mechanisms. Understanding the different ways each of these groups engage with fraudsters is key to developing disruption and prevention activities, discussed in the next chapter.

6 Implications

FCA remit

- Fraudsters are able to adapt their deception and grooming mechanisms to “selling” any investment product, and actively seek products which are seen by victims as topical and interesting, as well as being unregulated by the FCA. While this can be seen as an argument for expanding the FCA’s remit, it is likely that fraudsters would simply re-design the fraud to ensure it falls outside the FCA remit.

FCA contact centre as a point of disruption

- Victims who described their interaction with the FCA contact centre as effective in disrupting the fraud spoke of the benefit of receiving clear messages, either being told the company they were interacting with was fraudulent, or where that wasn’t possible to establish, being given clear messages that essentially amounted to the same thing e.g. legitimate brokers shouldn’t be cold calling.
- When victims who have already transferred money seek to verify the authenticity of the investment, they don’t want to believe they’ve been defrauded and so are prejudiced towards interpreting information to mean that the fraud may be legitimate. This makes clear messaging particularly important in disrupting an ongoing fraud.
- Victims of investment fraud are highly sensitive to blame from others. When they report the crime and receive a response that makes them feel blamed and foolish, this contrasts directly with the relationship they had developed with the fraudster. In grooming victims, fraudsters flatter them and make them feel intelligent. If FCA contact centre staff ever treat victims dismissively, a key opportunity may be missed to disrupt the relationship with the fraudster.

Communicating with victims

- Victims who reported a crime to the FCA described not receiving any further information about what happened with the information they gave. This lack of communication, even simply to explain why it isn’t being investigated at the present time, reduces victims’ confidence in the FCA and other authorities. This lack of confidence leaves victims vulnerable to recovery room fraud and makes them less likely to report in the future (and may discourage others from reporting).

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Appendix A. Case studies

Robin

Context

Robin is a 46 year old male who previously worked in the finance industry. Through his job Robin has seen people who have been at the receiving end of financial frauds; this heightened his awareness and knowledge of such frauds. At a young age, Robin received inheritance money, which enabled him to make long-term investments. Robin identifies himself as reflective, the sort of person who will think things through before taking action. At the time of the fraud Robin was not working due to illness and had been spending more time at home, which meant he received an increased number of cold calls.

Mechanism

When he was spending time at home Robin received at least one cold call per month. The callers said they wanted to help him make money by buying and selling shares he held; they claimed to know details about his finances, including shares he owned. The callers told Robin they were from companies with legitimate names, which as far as he knew really existed. Robin observed that callers said they were from countries he perceived to be 'financially sophisticated', but outside the jurisdiction of the Financial Conduct Authority and UK regulation. This made it plausible that he might not be able to find proof of their registration. When Robin tried to check that the company was registered they offered to send him evidence of their registration because it would not be possible for him to find from the UK. Some of the callers Robin spoke to sounded 'posh' while others did not.

Action

Robin was irritated by the inconvenience caused by getting lots of calls, so he registered with the Telephone Preference System. He was consequently suspicious of any cold calls he received. When the fraudsters got through to Robin, he tested their knowledge by feeding them false information about the product about which they claimed to be calling to see if they noticed. When this illuminated a gap in their knowledge Robin started to challenge the callers and asked questions about their legitimacy. The fraudsters who sounded 'posh' or well-spoken were especially angry with Robin's questions. Robin felt the fraudsters were not used to people asking questions and reacted badly when he challenged them. Robin was also unsure about the appropriateness of reporting to the FCA because he had not lost any money and was not a victim. However, he felt he had enough information about the incident for it to be useful to the FCA.

Susan

Context

Susan is a divorced business woman in her late 40s. In addition to running her business Susan had a range of voluntary commitments and a large family, with whom she wanted spend more time. On one occasion Susan had to leave a family holiday early to attend to something that had arisen with her business. It was at this point that Susan decided she wanted an easier way to make money that came with less responsibility than running a business.

Mechanism

It was in this context that Susan received a cold call about investment opportunities. Susan used to receive these phone calls regularly, they had previously targeted her partner, but this was the first time she decided to listen to the callers. The fraudsters presented Susan with a range of investment opportunities, including ethical forests. The callers initially asked Susan to invest small amounts, but these steadily increased. The investments offered were always topical, or linked to something in the news, which made them seem credible. Susan recalled being able to hear background noises, which made it sounds as though the callers were in a stock exchange. The callers told Susan that she would be able to sell the shares shortly after buying them, implying a quick return on her investment. Susan decided to invest money from her business into these shares, and transferred money into a foreign bank account.

Action

Susan became suspicious when share certificates took a long time to arrive, and when they did arrive they were ‘restricted’, meaning they could not be sold for five years. This contradicted what she had been told to expect. On realising that the investment was not genuine, Susan called the FCA to report the incident. The FCA told Susan she should have checked whether the company in question was registered. She was unhappy with this response so decided to report the case to the police. Susan felt deeply ashamed that she had been defrauded. While she identified the financial loss as being large, Susan felt that the emotional impact of the fraud was greater. Susan believes that a public campaign, with people telling their stories, could help prevent similar frauds in the future.

Derek

Context

Derek is a retired property lawyer in his seventies. Derek is married and has invested in a range of different types of shares since the eighties, and has enjoyed some success. Derek regularly received phone calls and emails informing him about investment opportunities; he believed people had been able to obtain his contact details through previous investments. He describes himself as being comfortable financially.

Mechanism

Derek received a cold call inviting him to buy shares in companies which were about to float on the US stock exchange. He initially refused to invest, but Derek received daily phone calls about the shares. It was always the same person who got in touch with Derek; he had a friendly manner and was well-spoken. The caller provided lots of information about the shares he was trying to sell Derek over email, and directed Derek to the company's website, which also contained detailed information about the shares. The caller told Derek his company was registered with the FCA, which made Derek trust him. Derek was eventually convinced to invest a small amount of money, which he felt he could afford, and chose shares in a company he knew of from his former work as a lawyer. Derek was told he would not be able to sell the shares for three months, which seemed reasonable because the company was only just being floated. Derek saw that the shares were going up significantly in price, 3x what he supposedly paid for them. Derek contacted the 'broker' to discuss when he'd be able to sell. When Derek was unable to get through he realised that he had been defrauded.

Action

On realising he had been defrauded Derek got in touch with the FSA. The FSA said they were unable to help but referred him to the police. Derek consequently reported the incident to the police who filed a report through Action Fraud. Derek identified himself as unlikely to invest through cold calls, but will invest through a broker. Derek now subscribes to the view that "If it seems too good to be true, it probably is."

Appendix B. Examples of documentation provided by fraudsters

[redacted]

[redacted]

Rabo Strategies

Registered Trading Office, Croeselaan 18, 3521 CB Utrecht, Netherlands
Canada Square, Canary Wharf, London, E14 5LQ, United Kingdom
Hopewell Centre, Queens Road East, Hong Kong, Hong Kong

[redacted]

(Please confirm details if incorrect)

CONTRACT N°: 021287

REMITTANCE COPY

SECURITY DESCRIPTION:
Realogy Holdings Inc (RLGY)

TRANSACTION N°	ACCOUNT N°	CURRENCY	TOTAL SHARES	PRICE	TRADE DATE
021287-01	021287	USD	500	$13.00	15 OCT 2012

AMOUNT	$6,500.00
ESCROW FEES	$40.00
STAMP DUTY	N/A
THE TOTAL AMOUNT DUE IS: TOTAL	$6,540.00
PAYMENT MUST BE MADE BEFORE THIS DATE: SETTLEMENT DATE	18th OCT 2012

Bank Wiring Instructions

Beneficiary Name:	**Giga Capital Trading**
Beneficiary Account Number:	**987000414**
Beneficiary Bank:	**Planters Development Bank**
Bank Address:	**Planters Bank Building 314 Sen. Gil Puyat Avenue Makati City Phillipines**
S.W.I.F.T. Code:	**PLDEPHM1**
Payment REFERENCE NUMBER:	**021287**
For payment application remarks Reason for Payment (quote only):	**ROGOS Reference**
In the special instructions/additional remarks section (if applicable) QUOTE ONLY:	**"MT103" Immediate Value Date**

DISCLOSURE: Investments in equities are speculative and will fluctuate in value. It should not be assumed that the value of investments will always rise. Past performance will not necessarily be repeated and is no guarantee of future success. The purchaser in his or her own right by virtue of his or her net worth and investment experience is fully capable of assessing and bearing the risks involved in this investment.

Note: "Credit entities and other providers of payment services, as well as the payment and loan systems of technological services related to those that transmit details in order to carry out transactions may be obligated by the legislation of the country where they are located, or by Agreements which the same may have made, to provide information on said transaction to the official authorities or organisms of other countries, situated within or outside of the European Union, in the fight against the financing of terrorism and serious forms of organised crime, as well as money laundering."

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Rabo Strategies is a registered and recognised SEC/MiFID company, compliant and authorised by the financial services authority (FSA), registration number 206825, to advise, offer and carry out regulated investment business and the transmission of orders in relation to one or more of the following financial instruments: transferable securities, money-market instruments, units in collective investment undertakings, options, futures, swaps, forward rate agreements and any other derivative contracts. Please be advised that past performance can offer a guide, it in no way can be used as a guarantee of future profits.

Nominee Account

Statement

Period covered

15/10 2012

22/10 2012

Rabo Strategies

[redacted]

Croeselaan 18, 3521 CB Utrecht, Netherlands
Canada Square, Canary Wharf, London, E14 5LG, United Kingdom
Hopewell Centre, 183 Queens Road East, Hong Kong, Hong Kong

Account Nº: 021287

Issue date: 23 OCT 2012

Reference

Reference	[illegible]	[illegible]	Type	Price	Amount	Total
021287-01	15/10/2012	Realogy Holdings Inc (RLGY)	BUY	$13.00	500	$6,500.00

Cleared transactions

Total cleared transactions for the period 1

Transactions waiting to be cleared

Reference	[illegible]	[illegible]	Type	Price	Amount	Total
021287-00	00/00/20XX	Holding Details (XXXX)	XXX	$0.00	0	$0.00

Total non-cleared transactions for the period 0

Portfolio

[illegible]	[illegible]	[illegible]	Amount	Investment	Total
22/10 2012	RLGY	MKT	500	1	$18,560.00

Return

00,00%

Value of holdings 1 **$18,560.00**

Closed positions

[illegible]	[illegible]	[illegible]	Amount	Investment	Total

Return

Total **$0.00** **$0.00**

Total Gain / Loss **$0.00**

Cash

[illegible]	[illegible]	Type	Debit	Credit	Balance
00/00 0000	Type	TYPE	$00.00	0	$000.00

Cash Balance **$0,000.00**

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DISCLOSURE: Investments in equities are speculative and will fluctuate in value. It should not be assumed that the value of investments will always rise. Past performance will not necessarily be repeated and is no guarantee of future success. The purchaser in his or her own right by virtue of his or her net worth and investment experience is fully capable of assessing and bearing the risks involved in this investment.

Note: "Credit entities and other providers of payment services, as well as the payment and loan systems of technological services related to those that transmit details in order to carry out transactions may be obligated by the legislation of the country where they are located, or by Agreements which the same may have made, to provide information on said transaction to the official authorities or [illegible] of other countries, situated within or outside of the European Union, in the fight against the financing of terrorism and serious forms of organised crime, as well as money laundering."

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[illegible]

Rabo Strategies

- Simple
- Professional
- Independent

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Our Services

For Execution Only Accounts are charged on a trade by trade basis, for Discretionary Managed Accounts, Offshore Corporate Accounts and Trusts, and IFA Managed Accounts are charged on a quarterly basis, and for Insurance and Pension Funds charged on an annual basis; any and all fees are waived if the account shows a net loss over the charging period.

Accounts and Charges

Advised Execution Account

For retail and HNWI (high net worth individuals) clients who wish to make trades on a singular or concurrent strategy, with pre-determined trade entry and exit expectations. No account opening forms are required, with clients having the ability to order trades online or through one of our brokers.
Settlement for payment is T+3 days.
Per Trade fee scale:-
0 – 14.99% profit = 5% fee.
15 – 24.99% profit = 10% fee.
25 – 49.99% profit = 15% fee.
50 – 99.99% profit = 20% fee.
100% + over profit = 25% fee.
E.g. $20,000.00 + 40% profit = $28,000.00. $8,000.00 profit x 15% = $1,200.00 fee.

Discretionary Managed Accounts

For HNWI and professional investors. Execution and/or Advisory terms as preferred.
Account opening forms must be provided in conjunction with proof of identity and main residence address.
Arbitrage services may be available to larger accounts; speak to one of our brokers for more information.

Accounts are managed and charged on a quarterly basis, as follows:-
Account Balance of $100,000 – 249,999 USD. 50 basis points per quarter. (0.50%).
Account Balance of $250,000 – 499,999 USD. 45 basis points per quarter. (0.45%).
Account Balance of $500,000 – 749,999 USD. 40 basis points per quarter. (0.40%).
Account Balance of $750,000 – 999,999 USD. 35 basis points per quarter. (0.35%).
Account Balance of $1,000,000 + USD. 30 basis points per quarter. (0.30%).
Account Balance of $5,000,000 + USD. 25 basis points per quarter. (0.25%).
A performance fee of 5% is levied upon all profits per quarter.

Offshore Corporate Accounts and Offshore Trusts

All articles, memorandi and deeds must be signed and stamped in conjunction with the submission of the account opening forms.
Tax efficient status cannot be guaranteed for non-compliant applications. For clarification speak to one of our Corporate Advisors.
All fees and charges are as stated in 'Discretionary'

IFA Managed Accounts

Bespoke service tailored to the individual needs of Independent Financial Advisors who require management of clients funds.
Full reconciliation service available. Fees and charges by negotiation.

Insurance Funds and Pension Funds

All compliance work and legal fees to be arranged and covered by the client. Hands On or Remote services available by negotiation.
Charges are 1.0% per annum plus 20% per annum performance fee. US, UK, and European denominated and sheltered.

Rabo Strategies provides both offeror and offeree advice, including but not restricted to:

Mergers & acquisitions
Deal origination

Appendix C. Detailed methodology

This appendix gives further information about the qualitative methodology. In total, 31 individuals participated in the research.

Research sample

The sample frame was provided by the FCA and consisted of an anonymised list of consumers they had some contact with and that had been victim of financial crime. The list included details of the unauthorised business type and within this those who had been repeat victims and those who had been a victim on a single occasion, whether or not the investigation was ongoing and where available gender, age and postcode area. The sample included victims of share fraud and victims of others types of financial crime.

The ability to draw wider inference from qualitative research depends, in part, on the nature and quality of sampling. The rationale in selecting those to be included in the research was to ensure diversity of coverage across certain key variables rather than to select a sample that was statistically representative of the wider population. A decision about the sampling criteria to use was informed by the findings from the quantitative segmentation research study (Experian, 2013), which found for example that older people and men were more likely to invest in fraudulent investments. Using a sample quota system the research team purposively selected from this a sample of 230 individuals those who we would ask the FCA to contact to ask if they would be willing to be contacted by researchers about the study. Key sampling criteria included the type of financial crime experienced, the number of times they had been a victim of financial crime, value of the fraud and participant gender, age and geographical locations.

Recruitment

All potential participants had been approached about a fraudulent investment opportunity or had been defrauded. This approach had usually been by an initial phone or email contact from someone that they did not know, and so it was important that the recruitment process did not replicate this previous contact i.e. a ‘cold call’ from a research organisation who they may not aware of. For this reason sensitive recruitment was one of the key ethical considerations on this study. The FCA made the initial contact with potential participants through the following two channels using both an ‘opt in’ and ‘opt out’ approach to their participation: The first approach involved investigators in the FCA’s Unauthorised Business Department (UBD), who are responsible for investigating investment frauds.

1. **Opt in:** The UBD Investigation team investigator introduced the research by phone or email to the potential participant and asked whether they would be willing for their contact details to be passed to NatCen, so that the research team could contact them directly about taking part in an interview.
2. **Opt out**: The FCA sent a letter to a sample of purposively selected potential participants who they have previously contacted because they believed they had experienced some form of financial crime but who were not directly in contact with

UBD investigators. The letter introduced the research and explained that the individual may receive a phone call from the NatCen research team about taking part in an interview. All participants were given details of how to opt out of the study (via the FCA helpline) if they did not wish for their contact details to passed to NatCen. As a result of this contact some participants also made direct contact with NatCen and asked to opt in to the study instead.

Participant characteristics were monitored throughout the process to ensure sample quotas were being met. The range and diversity of people taking part and their experiences enabled the research team to fully explore and gain an in-depth understanding of a range of individuals' experiences of different types of financial crime and their views and recommendations. Wider inference can be drawn on this basis rather than on the prevalence of responses. Participants from all four nations of the UK were interviewed for the study.

Informed consent

In any research it is important that informed consent to participate is obtained but especially so when the research may focus on a particularly sensitive issue such as victimisation.

To ensure participants were fully informed about the research before they agreed to take part the researchers discussed the study with them in detail before asking for their consent to arrange an interview. Information leaflets were also provided to participants by the research team before the interview took place. At the end of the interview a multi-stage consent process was followed. This enabled participants to agree to their account to be used in a number of different ways by the FCA – and for them to take part without them agreeing to every option.

Conduct of interviews

Individual in-depth interviews were completed with 31 people, at a time and place convenient for participants. This tended to be their home, which was felt to be an appropriate setting given the potentially sensitive nature of the interviews. However, participants were also offered the option of conducting the interview at an external venue, or over the telephone if this was their preference. The interviews lasted up to two hours each and were audio recorded and transcribed verbatim. They were conducted using a topic guide (a full version is available in appendix D), to help ensure a consistent approach across interviews and between interviewers. However, the research team used the guides in such a way that was responsive and tailored to individual experiences. This meant that the topics covered and the order in which they were discussed varied, especially between interviews. The interviews focused particularly on the way that the financial crime had been committed, victims' responses to being defrauded and their perceptions of the impact of the fraud. Issues relating to the prevention of financial crime were also discussed. The one to one nature of the interviews allowed participants to recount complex experiences of financial crime at their own pace and in detail. Interviewers used open, non-leading questions and answers were fully probed (for example asking ‘How?’ and ‘In what way?’). Participants were given £30 for taking part as a thank you for their time.

Kvale and Brinkman (2009) and Mason (2002) describe the multitude of skills that interviewers need to employ at any one time. This includes the ability to listen and fully understand what is being said; assess how it relates to the research questions; decide what to explore in more detail immediately and what to return to later on in the interview; decide how to phrase the next question; be alert to contradictions with what has been said earlier; pick up on nuances, hesitation, emotion and non-verbal signals; pace the interview; keep an eye on recording equipment, and deal with any distractions or interruptions that arise. The research team working on this study drew on a range of skills to ensure that interviews were conducted in a way which fully explored participants’ experiences, while always being mindful of the participants well-being in recounting these very often sensitive and emotional experiences. The interviews could include discussion of highly sensitive or distressing information and were conducted by experienced research staff with a track-record of interviewing people about sensitive issues.

Analysis

All interviews were transcribed verbatim. Key topics which emerged from the interviews were identified through familiarisation with the transcripts and discussion among the research team to create a list of themes and sub-themes called ‘nodes’. The transcripts were managed using the software package NVivo 10, by hyperlinking the relevant parts of a transcript to the relevant ‘node’, and if necessary creating a new node. This approach meant that each part of every transcript that was relevant to a particular theme was noted, ordered and accessible. All members of the NatCen research team met regularly to discuss the current list of nodes and what should be included in each to ensure consistency of approach. A central chart was also created which gave an overview of each interview in terms of the key sampling characteristics such as type of financial crime experienced and victimisation type. The final analytical stage involved working through the coded data both within and across cases and themes, drawing out the range of experiences and views, identifying similarities and differences and interrogating the data to seek to explain emergent patterns and findings (Spencer et al, 2013). This allowed us to take data analysis beyond just a description of themes, to develop the typology and explanatory accounts that explain the complexity of victims’ lives and their experiences. Verbatim interview quotations are provided in this report to highlight themes and findings where appropriate.

Ethics

This study was approved by NatCen’s Research Ethics Committee (REC), which includes members from external professional experts and senior NatCen staff. This ethics governance procedure is in line with the requirements of the Economic and Social Research Council (ESRC, 2005) and Government Social Research Unit Research Ethics Frameworks (GSRU, 2005). A number of ethical considerations were taken into account for this study. As described above all potential participants had been approached about a fraudulent investment opportunity or had been defrauded. And this approach had usually been from someone that they did not know. A sensitive recruitment process was critical, to ensure that potential participants were not concerned or traumatised in any way, and had confidence in the authenticity of the research and were so given the greatest opportunity to make an informed decision about participating. For example, all participants were first approached by the FCA about taking part in the study. For those who had reported a financial crime to the FCA this initial approach was by their known case officer at the FCA. As their case officer had an ongoing relationship with them, this sensitive first approach allowed them to opt-in to the research and supported them to be in control of the process. Once the NatCen research team made contact with potential participants further information about the study was provided both over the phone and by letter or email to ensure that all participants were aware of the subject matter of the research, as well as the issues likely to be raised in an interview, the nature of participation and any other material facts which might have affected their willingness to participate. Directly prior to beginning the interview, the researcher discussed the research in detail with the participant once again, and re-affirmed that the participant's informed consent had been gained.

Lastly, because of the potential sensitivities involved, the interviews were conducted by experienced researchers with specific skills in interviewing victims of crime and other vulnerable people. In-depth interviews provided the flexibility for the interviewer to build rapport with the participant, allowed the participant to maintain control of the process and empowered them to tell their story in the way they want to tell it while minimising the psychological risks to the participant from taking part in the study.

Limitations

The qualitative findings give a good understanding of the range of views and experiences that exist around how financial crime is conducted and the responses and impacts on those directly affected by it. However, as for any piece of research there are limitations, and it is important that these are acknowledged. As is normal with qualitative research, the sample was selected to obtain range and diversity of experiences and characteristics and was not to be statistically representative of the wider population of victims of financial crime. In addition, opt in approaches can lead to a degree of self-selection bias as participants' decision to participate may be correlated with certain traits. Lastly, the sample only included those who have reported a crime to the FCA or the FCA had contacted because they were a victim of financial crime. However, as is widely known many victims of financial crime do not report it to the authorities, including the FCA, and it would be interesting to conduct further research to understand how their experiences may differ.

Appendix D. Interview topic guide

The main headings and sub-headings for the topic guide used for the interviews are provided below.

1. Introduction

- Introduce self and NatCen
- Explain the aims and objectives of the research
- Explain confidentiality, anonymity and potential caveats
- Interview practicalities
- Questions

2. Background and context

- Information about the participant such as what they do with their time
- Money management

3. Timeline of financial crime victimisaton

- Describe what happened leading up to them investing in the case FCA is investigating
- Factors they considered when deciding whether or not to invest
- Why they think they were targeted by the fraudster(s)
- Who was involved/affected

4. Responses to be defrauded

- What happened after they made the investment(s)
- Who they told about the investment(s)
- Their experience of trying to recoup financial losses

5. Impact of crimes experienced

- What effect the investment(s) have had on their life
- How they feel about the investment now
- Potential for re-victimisation

6. Prevention of financial crime

- Reflect on timeline and anything that happened that helped them avoid being defrauded further
- What would help stop other people being defrauded in the future

7. Concluding thoughts

- Single message to the FCA about what they should be doing to prevent financial crime
- Anything else to add
- Additional consent options