Financial Conduct Authority

Author: Will Graham

A quantitative analysis of investment crime

Executive Summary

Project description and aims

This report presents the findings from the first phase of a project designed to help us proactively combat investment fraud. The aim of the project was threefold:

- To develop insight into the characteristics of victims of financial crime.
- To support the training and development needs of financial crime investigators.
- To develop proactive interventions (e.g. communication campaigns) delivered to specific groups/specific locations.

In order to achieve these goals, the project has two distinct phases: quantitative analysis and qualitative research. This report relates to the quantitative analysis.

Quantitative analysis methodology

We commissioned Experian to carry out an analysis of the geographic, demographic and socio-economic profile of victims of investment fraud using 11,359 individual records. This provided us with an understanding of which individuals are most vulnerable to investment fraud. The different types of investment fraud captured in the data included share fraud, recovery fraud, pyramid schemes, as well as carbon credits, fine wines, rare earth metals and land banking.

Quantitative analysis findings

Analysis of the quantitative data gave a robust, empirical understanding of the profile of victims of investment fraud. It found that victims tended to be wealthy, financially sophisticated males with an escalating correlation to older ages. There was particularly strong representation from residents of the South or East of England, and from either very urban or very rural locations.

The FCA consumer segmentation model, Consumer Spotlight, was applied to the results. There was very strong representation from the 'Retired with Resources', 'Affluent and Ambitious' and 'Mature and Savvy' segments. For example, the Retired with Resources segment (more likely to be over 65 with savings in excess of £10,000) were 3.5 times more likely to be victimised, and the Mature and Savvy segment (more likely to be highly educated, middle-aged males) were 2.5 times more likely to be victimised.

These findings largely reinforced investment crime investigators' anecdotal experiences, however the analysis also offered some surprises – such as the over-representation of income brackets as low as £10,000-£14,999 a year, or the high vulnerability to recovery fraud of women and the 'Retired on a Budget' segment.

Intended project outcomes

It is hoped that the outputs from this project will lead to improved consumer outcomes by providing an understanding of the profile, behaviour and vulnerabilities of victims of investment fraud. This insight enables us to develop and target interventions aimed at increasing the proportion of investors who take proper measures when considering an investment, including; being wary of any firm attempting to make cold calls, verifying the authenticity of a firm via appropriate channels (e.g. by contacting the FCA or the Police), ensuring they have appropriate protections in place, and making sure any evidence of fraud is reported to the authorities.

1.1 Introduction

This report sets out the project overview identifying the rationale and methodology for this phase of the project. It introduces the main types of investment fraud, and provides analysis of investment fraud victim characteristics.

1.2 Aims and purpose of this project

The FCA receives 5,000 calls a year about suspected investment frauds. 20% of the investors had already paid money to fraudsters; it takes an average of four calls before people contact the FCA.[1] This project was therefore designed to achieve several aims to enable the FCA to make earlier interventions to disrupt investment fraud.

The project's aims support the FCA's consumer protection objective and demonstrate the FCA's proactive approach to tackling investment fraud. These aims can be summarised as follows:

1. Improved victim profiling. Many studies of investment fraud have sought to analyse the fraudsters themselves – who they are, what type of schemes they run, and how to restrain them. However, very few studies have sought to focus on who the victims of investment fraud are. This project will help the FCA and its partners understand which specific sectors of society are particularly at risk for each type of investment crime.
2. Earlier and more proactive interventions. We hope that the project will enable us to develop more advanced techniques to intervene in investment frauds earlier and more often than at present. Just 10% of investment crimes are believed to be reported;[2] we hope that this publication and our subsequent communication activity will enhance awareness among investors of the actions they can take to protect themselves against fraudsters. These actions include engaging with the FCA and other crime-fighting organisations at as early a stage in the process as possible.
3. Better training. The findings will support the training and development needs of investment fraud investigators. Conducting both qualitative and quantitative studies affords us the opportunity to challenge, as well as verify, assumptions about the nature of victims of investment fraud. We are able to draw out nuanced insights which may not be immediately obvious to investigators equipped only with anecdotal knowledge.

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[1] http://www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams
[2] http://www.actionfraud.police.uk/thedevilsintheirdetails-overconfident-uk-investors-fall-prey-to-1.2bn-of-fraud-nov12

1.3 Project phases

In order to achieve the above goals, the project has three distinct phases:

Phase one – quantitative analysis

In the course of our investigations into unauthorised business, we collect data about victims of investment fraud. However, until now it has not been analysed to identify the characteristics of the victims.

An examination of the geographic, demographic and socio-economic profile of prior victims of investment fraud enables us to build a firm understanding of which groups of people in society are most vulnerable to future investment frauds. The FCA's emerging consumer segmentation model, 'Consumer Spotlight', was used as an additional profiling tool, enabling the FCA to link the insight from this research into any consumer communications, engagement and influencing activity.

Phase two – qualitative research

The quantitative analysis provided a platform from which to develop the secondary phase of the project – a qualitative research phase involving in-depth interviews with around 30 victims of investment crime.

The qualitative research report is available on the FCA website.

Phase three – consumer communications campaign

Following the completion of the quantitative and qualitative phases of research, the FCA's Consumer Communications department will implement a campaign, scheduled for launch in Q3 2014, designed to transform investor behaviour from being individuals who are susceptible to investment fraud techniques, but think scams will never happen to them, to smart investors with the knowledge and tools to actively avoid scams.

Both the quantitative and qualitative research played a critical role in informing the direction and constitution of the campaign. For further information, please visit the FCA's website at http://www.fca.org.uk/scamsmart.

1.4 What is investment fraud?

Financial fraud impacts a huge number of people each year across a broad range of financial products and markets: one in ten people in the UK have fallen victim to financial fraud in the past five years[3], costing in excess of £6 billion every year.[4] This study relates to investment fraud, which is a sub-set of financial fraud.

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[3] http://www.telegraph.co.uk/finance/personalfinance/9401927/One-in-ten-people-fall-victim-to-scams-investigation-finds.html
[4] http://www.telegraph.co.uk/finance/personalfinance/9401927/One-in-ten-people-fall-victim-to-scams-investigation-finds.html

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Investment fraud can be defined as the illegal activity of providing false information to someone so that they will invest in something.[5] Fraudsters contact unsuspecting individuals and offer them exciting investment opportunities with seemingly very high returns. However, the investments turn out be non-existent, impossible to sell, or worthless. Every year in the UK, an estimated £1.2 billion[6] is lost to investment frauds, with an average loss of £20,000 per investor.[7] Investment frauds include:

- **Share fraud** occurs where a fraudster sells worthless or unsaleable shares from call centres known as 'boiler rooms', typically using high-pressure sales techniques. This represents the most common form of investment fraud seen by the FCA.
- **Recovery fraud** occurs when fraudsters contact a previous investment fraud victim, and offer to recover their lost investment – in exchange for an advance fee. The victim is thus defrauded twice as no genuine attempt to recover the original funds is ever made.
- **Pyramid or Ponzi schemes** are multiple-investor structures whereby capital received from new investors is used to pay returns to existing investors, creating the illusion of high profitability.
- **Pension liberation** fraud takes place when people are encouraged to access their pension before retirement, without being properly informed of the potentially severe tax consequences (for most people the likely result is a tax bill of more than half of the pension's value). The fraudsters charge consumers a fee for facilitating the transaction.
- **Carbon credits** are commercial permits to emit carbon dioxide. They can be traded, however selling carbon credits is extremely difficult for individual investors as they tend to be purchased in very high quantities by buying firms.[8]
- **Fine wines**. Rogue wine traders sell people investments in wine which is either not the vintage quality it is claimed to be, or simply does not exist in the first place. Trading in wine before it is bottled and released to the market (known as *en primeur* wine) is particularly open to exploitation by fraudsters as it is not usually delivered until two to three years after the vintage.[9]
- **Rare earth metals** – chemical elements used in the manufacture of products like computers and mobile phones are not a viable market for retail investors as they are almost always bought in very large quantities by manufacturing companies. This makes it highly unlikely they will deal with small independent retail consumers.[10]
- **Land banking**. Land banking companies divide land into smaller plots to sell it to investors on the basis that once it is available for development it will increase in value.[11] However, the land is often in areas of natural beauty or historical interest, with little chance of it being built on.
- **Foreign exchange** trading fraud occurs whereby investors are persuaded that high profitability exists in the foreign exchange market, when in reality the market for foreign exchange is a 'negative-sum game'[12] for individual speculators once brokerage commissions and transaction costs are factored in.

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[5] http://dictionary.cambridge.org/dictionary/business-english/investment-fraud
[6] http://www.actionfraud.police.uk/thedevilsintheirdetails-overconfident-uk-investors-fall-prey-to-1.2bn-of-fraud-nov12
[7] http://www.fsa.gov.uk/library/communication/pr/2006/053.shtml
[8] http://www.fca.org.uk/consumers/scams/investment-scams/carbon-credit-trading
[9] http://content.met.police.uk/Article/Investing-in-fine-wine/1400013278591/1400013278591
[10] http://www.fca.org.uk/consumers/scams/investment-scams/rare-earth-metals
[11] http://www.fca.org.uk/consumers/scams/investment-scams/land-banking
[12] A negative-sum game occurs when the sum of winnings (positives) and losses (negatives) is negative.

1.5 The FCA's role in fighting financial crime

We have an overarching strategic objective of ensuring markets function well. To support this we have three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and, to promote effective competition in the interests of consumers.

An important part of our work is to shut down illegal investment scams perpetrated by rogue operators, many of whom ride on the coat-tails of the reputations of legitimate investment managers and stockbrokers. Many go so far as to try to pass themselves off as well-known FCA-authorised businesses, using identical or similar names and copycat web addresses to those of long-established City firms. Those who invest their money with businesses that are unregulated are not protected by the Financial Services Compensation Scheme, and all too frequently lose all their money.

Overall, however, the trend for investment fraud shows a steady decline – which we attribute in part to the efforts we, and law enforcement partners in the UK and overseas, have put into making life more difficult for the fraudsters and to educating potential victims about the risks.

Conducting investigations and prosecutions in response to reports of investment fraud is key to achieving our objectives. The Financial Services and Markets Act 2000 gave the FCA powers to investigate and prosecute unauthorised business cases. These powers have been deployed in recent years with notable successes – for example, an investigation in 2009 by the Financial Services Authority[13] and City of London Police exposed a boiler room scam that defrauded an estimated 1,700 investors of a total £27.5 million.[14] Meanwhile in February 2014, 110 people were arrested following 'Operation Rico'[15], a two-year, multi-jurisdiction investigation.

Just a few years ago, 60% of the 5,000 investors who contact us each year had already paid money to the criminals;[16] this figure has since dropped to about 20%. We are making significant progress, but there is still a great deal left to accomplish. We hope to encourage even more investors to contact us before committing to an investment, giving us the opportunity to intervene in the fraud process before investors transfer funds which may be very difficult, or impossible, to recover.

Part of the funding for this project was derived from the Home Office Asset Recovery Incentivisation Scheme (ARIS), which enables the FCA, as a criminal investigation and prosecution authority, to benefit from a percentage of the monies recovered from its criminal investigations and the associated Proceeds of Crime Confiscation Orders, for the purpose of mitigating the impact of financial crime.

1.6 Methodology

We retain details of every reported incident of investment crime, including the victims' personal details such as name, age, and address. These records were collated into a master

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[13] The Financial Services Authority (FSA) was the predecessor to the Financial Conduct Authority (FCA).
[14] http://www.fsa.gov.uk/library/communication/pr/2011/073.shtml
[15] http://www.bbc.co.uk/news/uk-26367166
[16] http://www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams
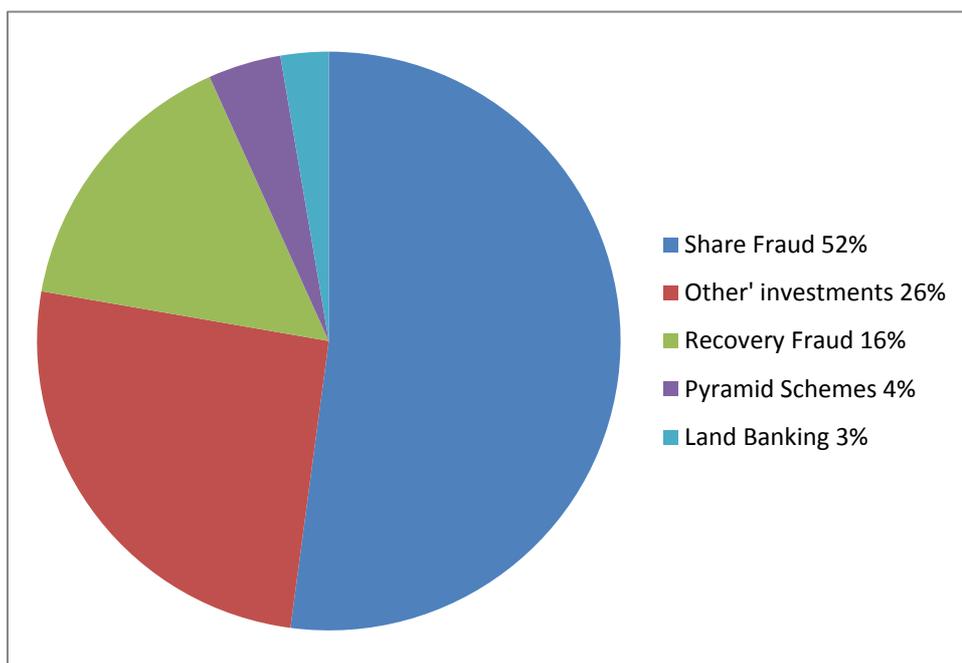
database. To ensure that the findings would not be outdated or obsolete, records were only taken from the preceding two years and only from cases that were closed.

The legal basis for collating and analysing victim data comes from using the data to improve the 'information or advice' the FCA can give under Section 157 of the Financial Services and Markets Act 2000[17] to further our consumer protection and financial crime objectives. The data was handled at all times with due consideration of the Data Protection Act[18], particularly when transferring personal data to and from third parties.

Non-UK residents were excluded from the database as it was only possible to cross-reference the data with UK addresses. Incomplete records were also eliminated to ensure maximum accuracy. Approximately 3,400 complete records remained, though they did not provide a sufficiently representative sample of the population to deliver robust statistical insights. In order to increase the sample size, the FCA approached the City of London Police (CoLP), who supplied around 8,000 further records from their databases, again drawn exclusively from the preceding two years.

The data from CoLP was combined with the data held by the FCA, resulting in a total of 11,359 records. The data consisted of 5,918 records for share fraud, 1,766 for recovery fraud, 2,914 for 'other' investments, 302 for land banking and 459 for pyramid schemes. The sample sizes for land banking and pyramid schemes were insufficient to extract quantitative conclusions for those specific types of fraud, however, when consolidated with the main database, they contributed to quantitative findings for investment fraud in general.

Figure 1 - Breakdown of sample data by fraud category

- Share Fraud 52%
- Other' investments 26%
- Recovery Fraud 16%
- Pyramid Schemes 4%
- Land Banking 3%

The FCA worked with Experian, a credit reference agency who possess a wide range of analytical tools, to provide statistical interpretation of the data. For the pilot analysis,

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[17] http://www.legislation.gov.uk/ukpga/2000/8/contents
[18] http://www.legislation.gov.uk/ukpga/1998/29/contents

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Experian correlated the data with its consumer database[19], which holds extensive information on 45 million UK customers.

Experian correlated the 11,359 records with its consumer database and the FCA's Consumer Spotlight segmentation model.[20] This facilitated the in-depth profiling of the victims by a variety of personal and household demographics, including: age, gender, wealth, geographical location (region and urban/rural), household composition, employment status, financial sophistication, income, financial stress, and FCA Consumer Spotlight segment.

2. Main findings

This section presents the key findings describing the geography, characteristics and demographics of the victims of investment fraud in the UK. Analysis of criteria such as age, gender, employment status, income and location is followed by an analysis of consumer segments, and finally, a comparison between the different types of fraud to pick out any characteristics which are unique to a certain type of investment crime.

The trends seen in this section can be inferred to be relevant for investors generally, rather than just victims of investment crime – a comparison of demographic profiles between victims and non-victims would be unlikely to show significant differences as many victims are experienced investors with existing shareholdings.

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[19] Experian's consumer database retains information on UK consumers including: postcode addresses, electoral register, address links, aliases and associations, public information (e.g. bankruptcies, County Court Judgments etc.), previous credit searches, credit account records, telephone numbers, CIFAS fraud reports, repossessions history, postal redirection addresses, accommodation addresses, sanctions data, mortality data, CitizenCard information and Gone Away Information Network data.
[20] See Appendix 3 for further information

Summary: Who are investment fraud victims?

The strongest representation in the sample population came from:

- Older males, many of whom are retired.
- Affluent individuals with annual incomes in excess of £50,000.
- The most financially sophisticated members of society.
- Existing shareholders.
- Residents of urban centres and highly rural areas in the South East of England.

2.1 Demographics

The index charts in this section show whether there are proportionally more or fewer of each type in the sample population (i.e. investors included in the study) compared to the wider UK population. A value over 100 means there are proportionally more in the target group than there are in the broader UK population. A value of 200 would mean there are proportionally twice as many in the target group as there are in the broader UK population. Conversely, a value of 50 would mean there are half as many in the target group as there are in the broader UK population. Unless stated, the sample population for each finding is 11,359.

2.1.1 Key characteristics of investment fraud victims

The following charts describe the key characteristics of investment fraud victims: age, gender, employment status and level of income.

Table 1 – Age of investment fraud victims compared to the UK population
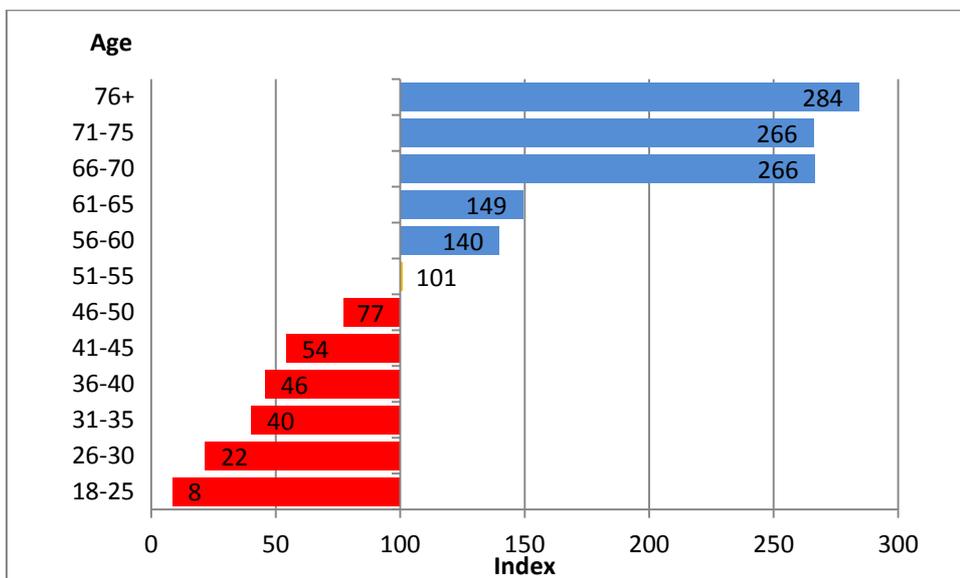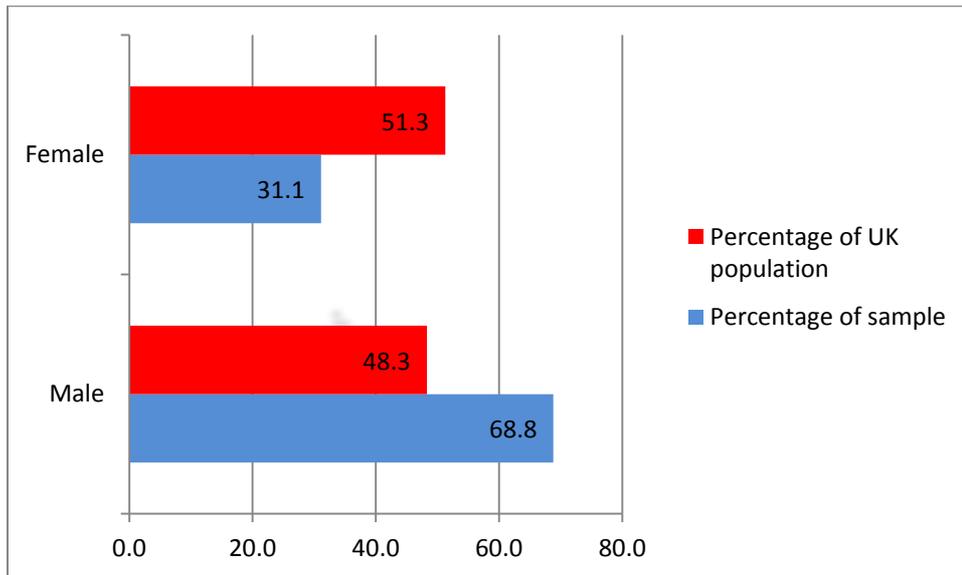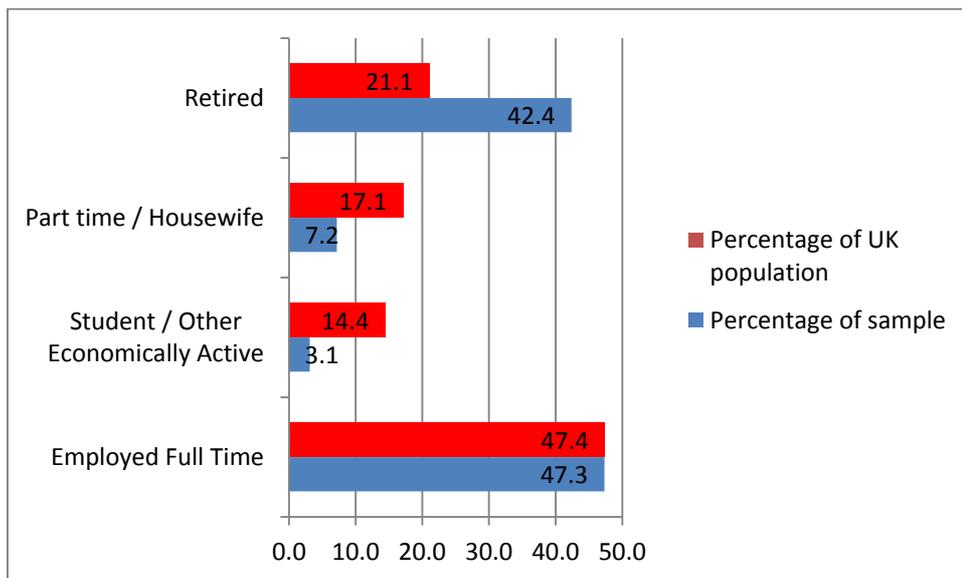

Table 1 above shows a simple, escalating correlation with age – the older someone is, the more likely they are to become a victim of investment fraud.

Table 2 – Gender of investment fraud victims compared to the UK population

The gender distribution table shows that males, representing less than 50% of the UK's population but almost 70% of the sample, are more likely than females to become a victim of investment fraud.

Table 3 - Employment status of investment fraud victims compared to the UK population

Reinforcing the skew towards the older sectors of society shown in table 1, table 3 shows that victims are twice as likely as the wider population to be retired. Those in full-time employment are almost exactly representative of the wider population (47.3% against 47.4%).

Students, part-time workers and housewives/househusbands are under-represented in the sample, perhaps reflecting lower levels of investable income held by these individuals.

Table 4 – Personal annual income

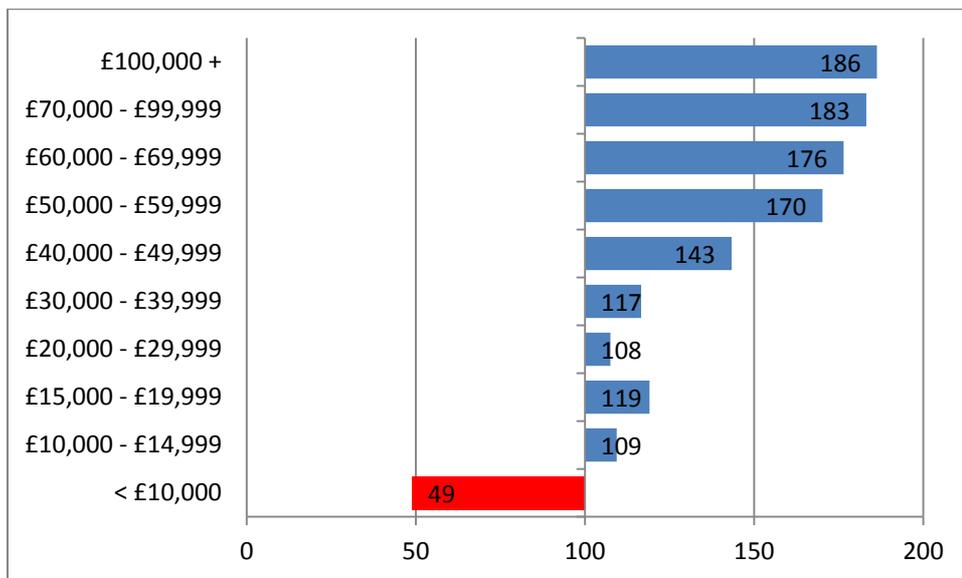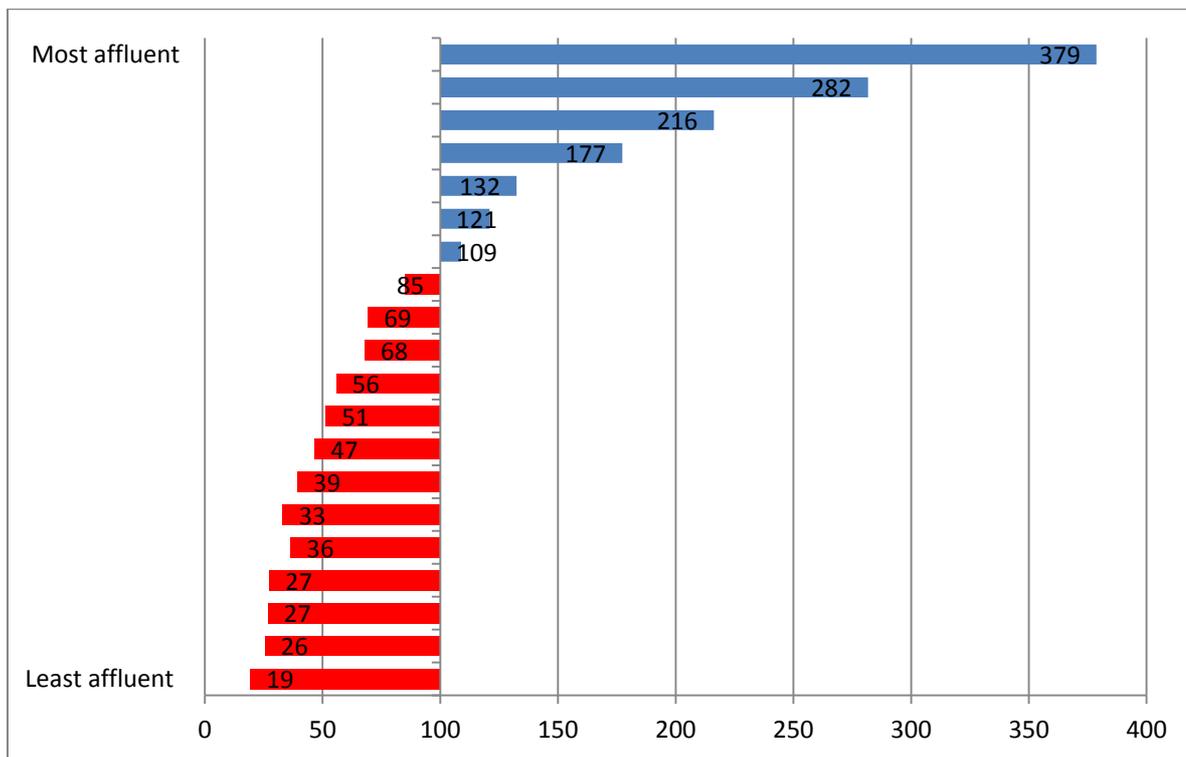| Income bracket	Index
£100,000 +	186
£70,000 - £99,999	183
£60,000 - £69,999	176
£50,000 - £59,999	170
£40,000 - £49,999	143
£30,000 - £39,999	117
£20,000 - £29,999	108
£15,000 - £19,999	119
£10,000 - £14,999	109
< £10,000	49

Table 4 above shows the personal income levels for the victims of investment fraud. Unsurprisingly, those on incomes of less than £10,000 a year strongly under-index at 49, meaning they are half as likely to be affected by investment fraud as the general UK population. However, all other income brackets over-index from £10,000-£14,999 to £100,000+, showing that investment fraud affects people on a very wide range of incomes. This is partially due to the number of retiree investors (see table 3) who may have a low annual income, but have accumulated high levels of investable wealth.
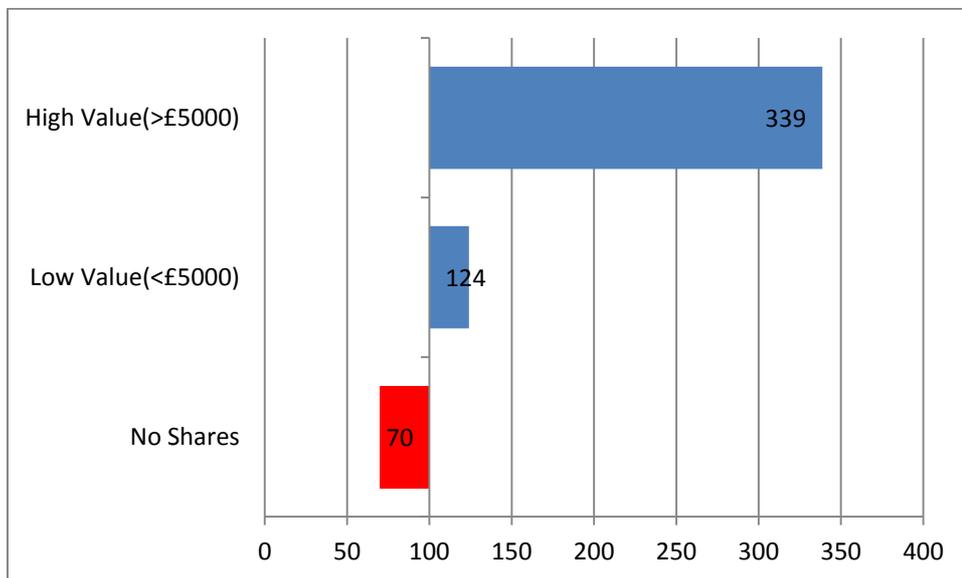
While the highest earning bracket are the most likely to be affected, the incidence of investment fraud is relatively consistent for all those earning £50,000 and more; income brackets over £20,000 a year display an escalating correlation which starts to level out at £50,000, rising from an index of 170 to an index of 186 for the top income bracket listed, £100,000+.

Table 5 - Affluence[21]

Less affluent people are far less likely to have sufficient resources to make an investment, hence their low indexes in table 5, above. The more affluent an individual is, the more likely they are to make investments, and therefore to become a victim of investment crime.
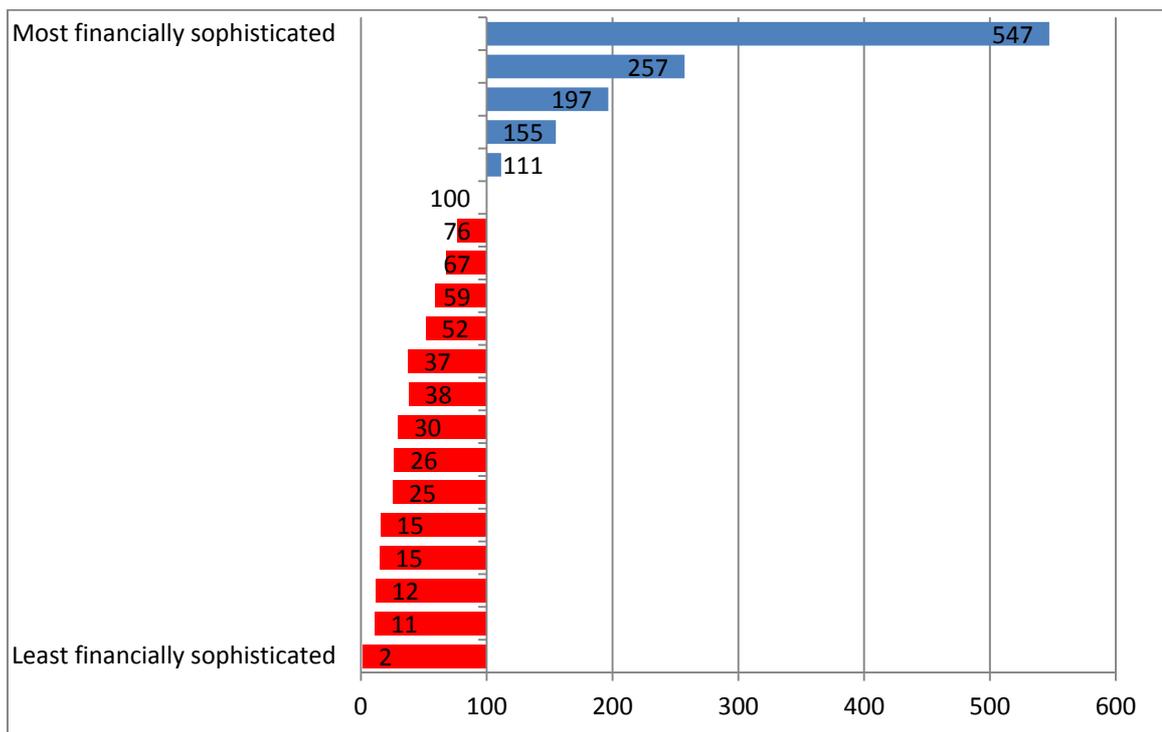
Table 6 - Shareholdings

Investors with high-value shareholdings are very strongly represented in the sample population with an index of 339. Individuals with high-value shareholdings are more likely to be investors in general, and are therefore also more likely to become victim of an investment

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[21] Affluence is a person level variable that identifies an individual's affluence based on a number of key variables: income, property value, and net worth.

These variables were then compared to the national averages. Levels of over-representation or under-representation were combined to create an Affluence score. This score was then ranked and banded into 20 bands (vigintiles).

fraud. It is believed that boiler rooms often use a company shareholder index as a list of people to contact[22], further increasing the likelihood that victims will be already be shareholders.

Table 7 - Financial sophistication

For financial sophistication, a low score indicates limited financial understanding, basic financial needs and indicates limited demand for complex financial products and services. Conversely, a high score indicates a good level of financial acumen, more complex financial needs and greater demand for more sophisticated financial solutions.

Twenty bands are shown in the table, each representing 5% of the UK's population (one viginitile); the most financially sophisticated vigintile is listed at the top of the graphic, and the least financially sophisticated at the bottom.
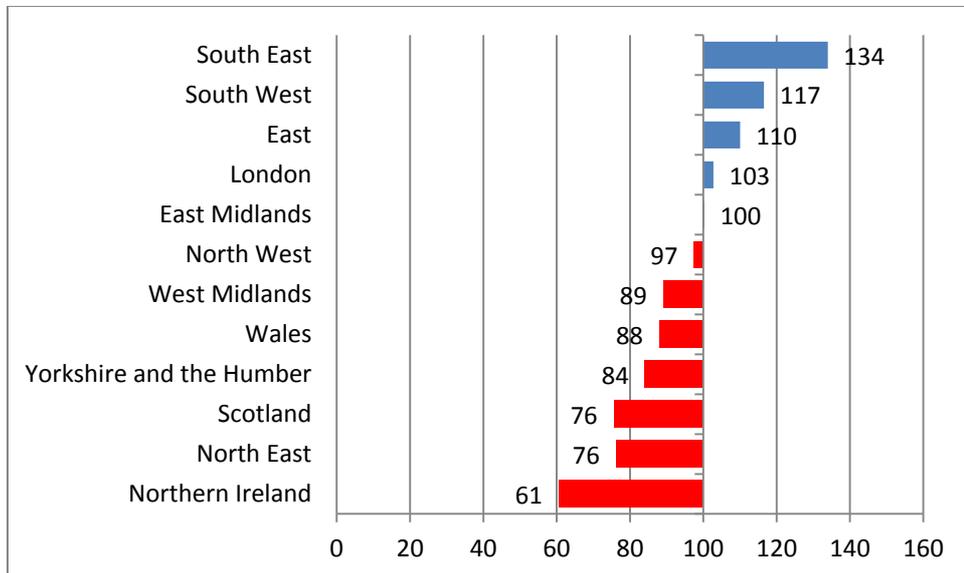
Very strong polarisation occurs when comparing financial sophistication and incidence of investment crime; the most financially sophisticated 5% of the UK's population are approximately five and a half times more likely to be a victim of financial crime than the rest of the UK (index 547), while at the other end of the scale, the least financially sophisticated 5% of the UK's population are 50 times less likely to be victims of investment fraud than the rest of the UK, registering an index of just two.

This finding is contrary to most other forms of financial detriment whereby the least sophisticated consumers tend are more susceptible to financial detriment. It illustrates that financial acumen is not an effective defence against investment fraud, and that investment fraudsters utilise tactics designed to tap into the financial sophistication of the investor.

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22 http://www.theguardian.com/money/2013/nov/23/boiler-rooms-victims-serious-fraud-office

2.1.2 Geographical characteristics of investment fraud victims

Table 8 - Geographical region

Region	Index
South East	134
South West	117
East	110
London	103
East Midlands	100
North West	97
West Midlands	89
Wales	88
Yorkshire and the Humber	84
Scotland	76
North East	76
Northern Ireland	61

Geographically, the South and East of England are over-represented among victims of investment fraud, with a particularly high index shown for the South East (134). London is very marginally over-represented, with an index of 103.

The lowest indexes were recorded for the North East (76), Scotland (76), and Northern Ireland (61), perhaps reflecting lower levels of investable wealth and income in those regions.

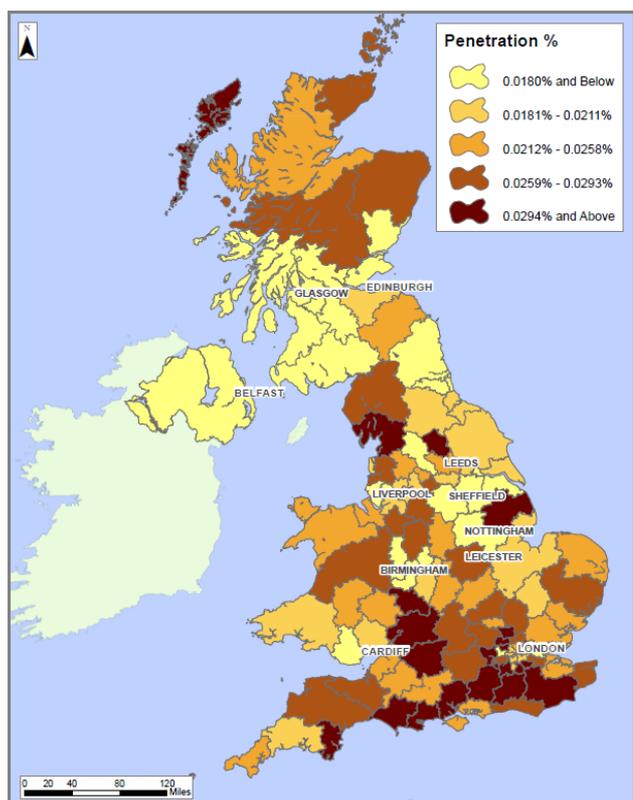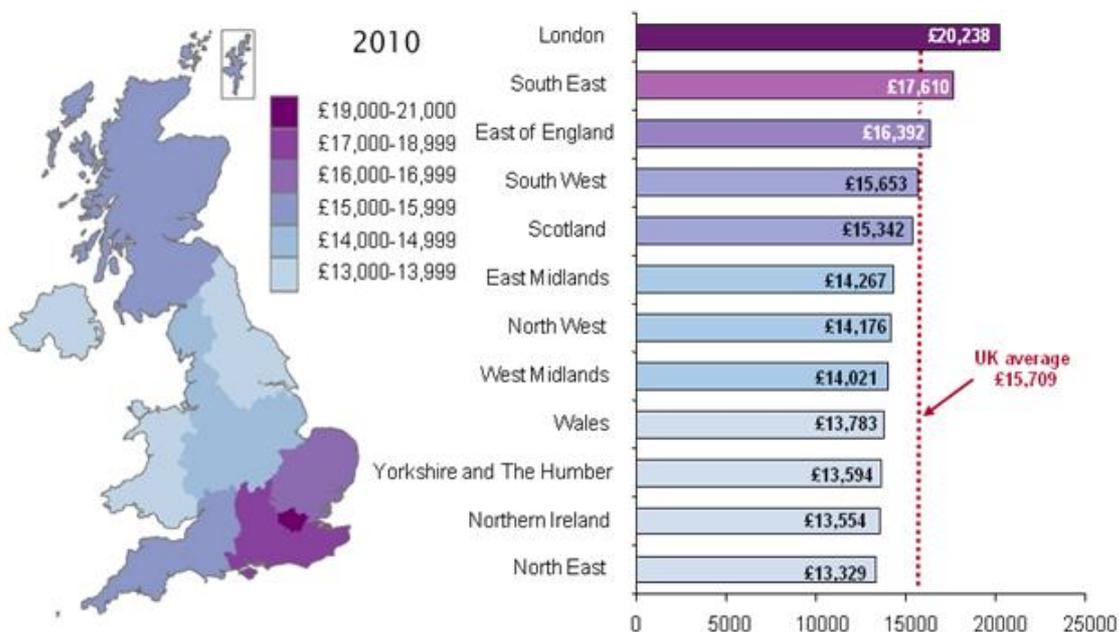**Figure 2 - penetration of investment fraud in the UK**

Figure 3 - Household disposable income across the UK, 2010

Source: ONS[23]

The penetration of investment fraud in the UK seen in Figure 2 can be compared to the average incomes per region shown in Figure 3 (above). There is a correlation between high penetration of investment fraud and high disposable incomes for London and the South East.

[23] http://www.ons.gov.uk/ons/rel/regional-accounts/regional-household-income/disposable-household-income-across-the-uk-in-2010/rpt-household-disposable-income-across-the-uk.html

However, when other regions are compared, the correlation weakens significantly and no firm conclusions can be drawn.
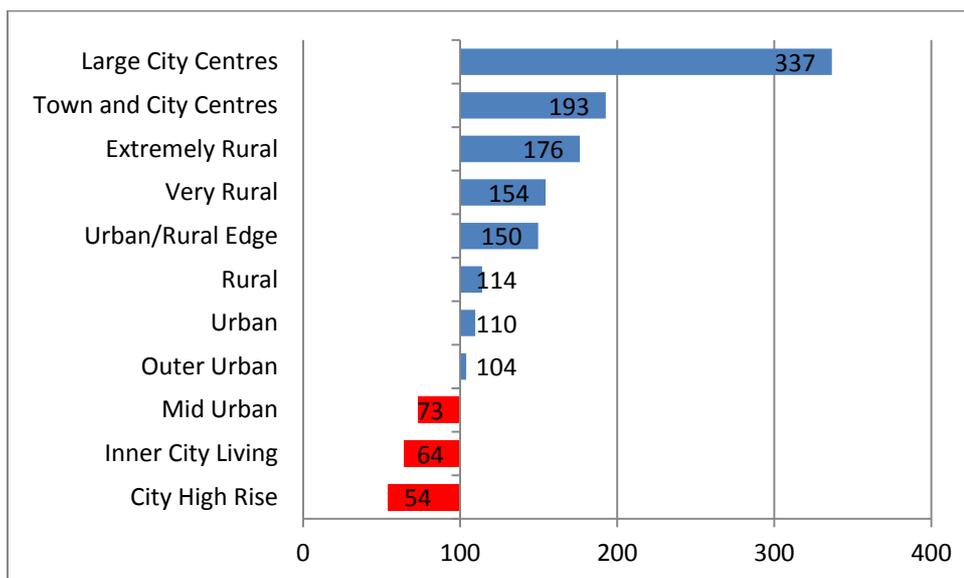
Table 9 - rural/urban location[24]

Table 9 shows an interesting trend among the sample base – investors are far more likely to live in either city centres, or highly rural areas. Urban centres index at 193 (town and city centres) and 337 (large city centres), while extremely rural areas index at 176, and very rural areas index at 154.
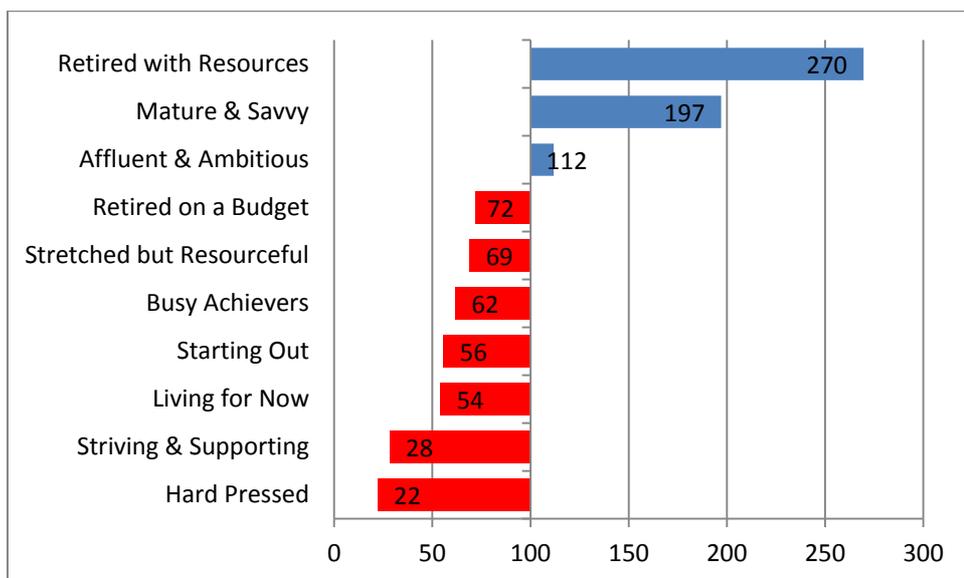
Meanwhile, some urban areas are far less well represented – mid urban (73), inner city living (64), and city high-rise (54) residents all significantly under-index.

2.2 FCA Consumer Spotlight Segments

In 2013 the FCA, in collaboration with Experian, built 'Consumer Spotlight', its own consumer segmentation model (see Appendix 3). Experian applied the investment fraud victim data to Consumer Spotlight to ascertain which segments were more, or less, affected by each type of investment crime.

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[24] The Rural/Urban Code segments areas depending on the level of rurality/urbanity exhibited. Each postal sector and output area is classified into one of eleven types.
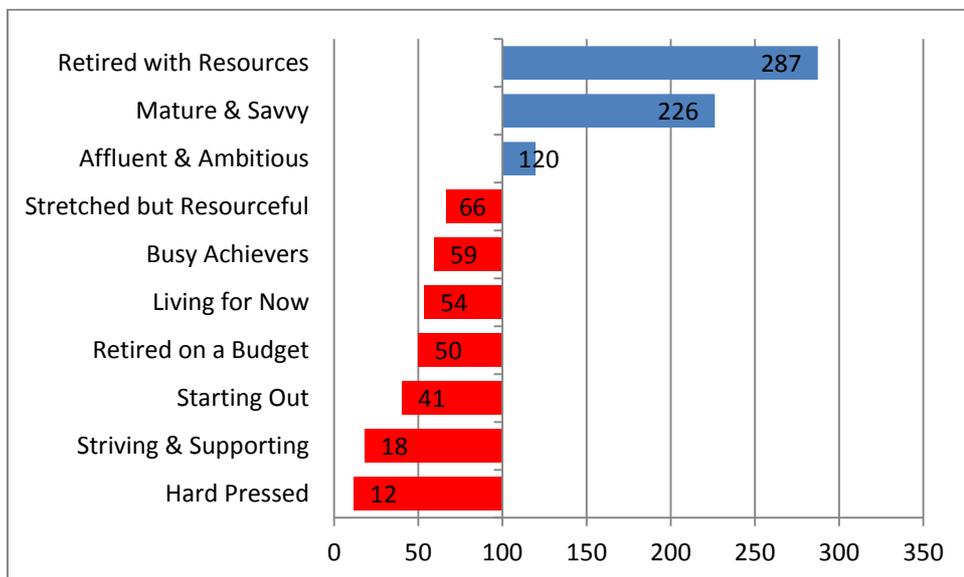
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Table 10 - All investment crimes

Just three segments over-index across all categories of investment fraud; Retired with Resources indexed the most heavily at 270, while Mature and Savvy indexed at 197, and Affluent and Ambitious marginally over-indexed at 112.
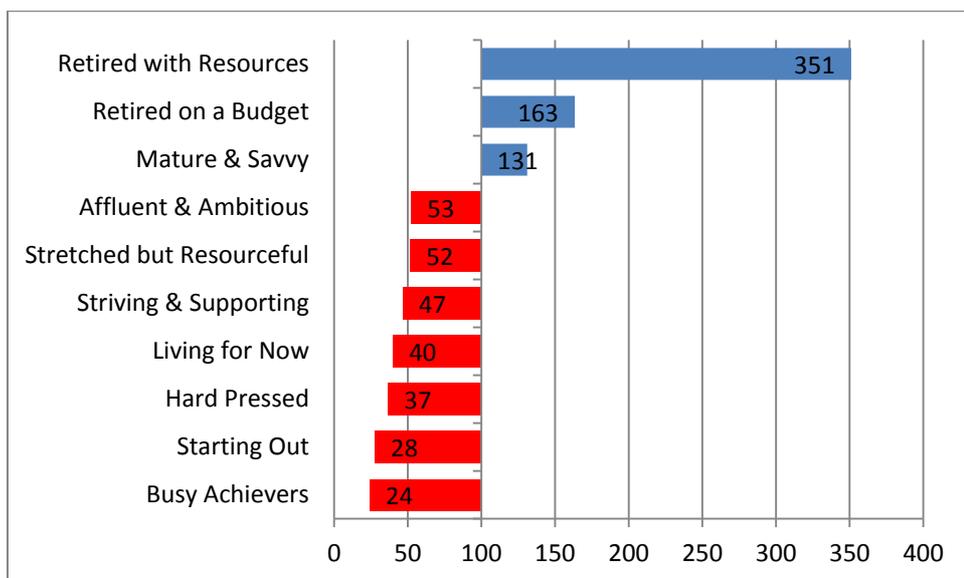
Meanwhile, younger and less affluent segments tend to under-index – Hard Pressed scored the lowest index at 22, meaning that members of this segment are about 4.5 times less likely to be affected by investment fraud than the wider population. Striving and Supporting also indexed very low at 28, while Living for Now (54) and Starting Out (56) are both almost half as likely as the UK's population in general to become the victim of an investment fraud.

Table 11 - Share fraud/boiler room (sample size: 5,918)

The indexes for share fraud largely mirror the results seen for all types of investment crime with the same three segments over-indexing. However, the skew is even more pronounced at either end of the scale – Retired with Resources increases from 270 to 287, Mature and Savvy increases from 197 to 226, while Hard Pressed reduces to 12 from 22, and Striving and Supporting drops to 18 from 28. This indicates that the younger segments are even less likely to invest in share frauds than they are in other types of investment fraud.

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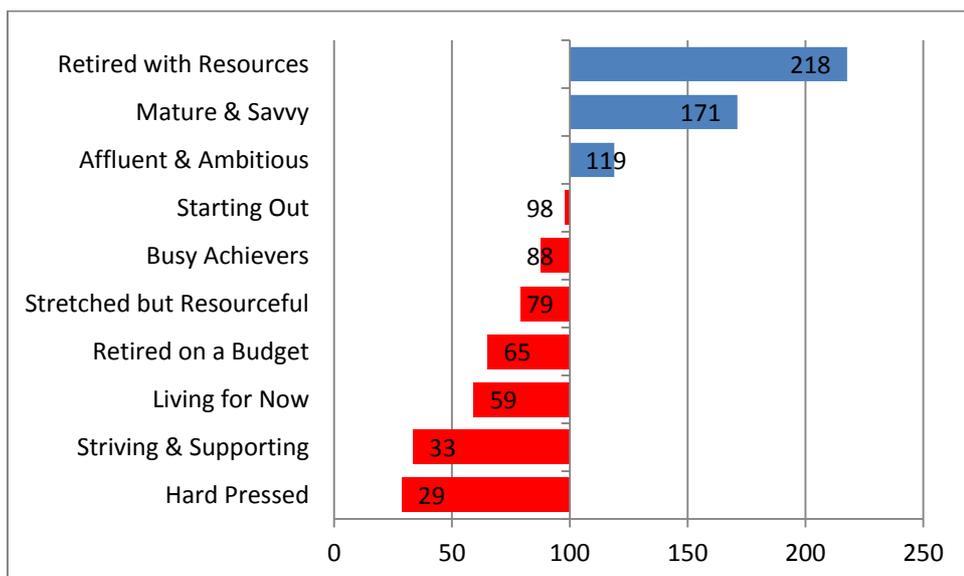**Table 12 - Recovery fraud (sample size: 1,766)**

The results for recovery fraud differ significantly. Retired with Resources (351) and Mature and Savvy (131) both heavily over-index again, but Retired on a Budget – a segment which has relatively low levels of investible wealth – also over-indexes at 163. One possible explanation is that, whilst less likely to fall victim to an initial fraud, when they do the impact may be significant, resulting in them being more likely to attempt to recover their loss and thereby become victims of recovery frauds.

Affluent and Ambitious, a segment which over-indexes for investment crimes in general, under-indexes for recovery fraud by a factor of almost two. This perhaps indicates that this segment is more willing and/or able to absorb a loss following an investment, and is therefore less likely to pursue recovery of the loss.

The remaining segments are underrepresented in the sample by a factor of between two and four.

Table 13 - 'other' investment fraud (sample size: 2,914)

For 'other' types of investment fraud, the Starting Out group offers the most surprising deviation from the figures for all types of investment fraud, indexing at 98 (compared to an overall index of 56). This segment has very low levels of investable income. However, they

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may be more likely to be persuaded by 'get rich quick' schemes as they have little experience of financial services and seek to get a head start in life.

2.3 Variations between different types of investment fraud
Each of the different types of investment fraud carries slight demographic variations when compared to the wider sample base. These can be summarised as follows:

2.3.1 Share fraud
- Slightly more likely to be male than the wider sample base.
- Older profile than other victims.
- More affluent, sophisticated, higher net worth, income, shareholdings and assets.
- Much less likely to live in town/city centres.
- Lower levels of 'financial stress'.

2.3.2 Fraud recovery
- Significantly more likely to be female than other frauds.
- Less affluent than other victims of investment fraud.
- Lower levels of income. The only two income brackets to over-index when victims of fraud recovery are compared to the UK's population are £10,000-£14,999 (index: 155) and £15,000-£19,999 (index: 140).
- Much less likely to be based in London (index: 61), town/city centres (index: 25) or large city centres (index: 11).
- More likely to live in mid/outer urban areas.

2.3.3 Other investment fraud
- Much younger age profile.
- Lower levels of liquid and non-liquid assets as well as net worth.
- Much more likely to have recently moved home (less than a year's residency index: 184).
- Far more likely to live in town and city centres (index: 249) or large city centres (index: 291).

Conclusions and recommendations
These quantitative findings broadly support the anecdotal evidence collected by organisations that work against investment crime. The findings confirm that it is older, wealthier investors – generally male – who are victims of investment fraud.

The findings also show that the more financially sophisticated a person is, the more likely they are to become a victim of investment fraud. This highlights how highly evolved fraudsters' techniques are. It also demonstrates that it is not possible to protect yourself against investment fraud simply by educating yourself on financial matters.

Where a person lives is also significant as an indicator of vulnerability to investment fraud. London and the commuter belt across the South and East of England are most strongly represented by victims of investment fraud. These areas have the highest levels of income in the UK, meaning individuals here are more likely to make investments, and therefore become victims to investment fraud. Meanwhile, those who live either in large urban centres, or extremely rural areas, are much more likely to experience investment fraud than those who live in suburban, or fairly rural, areas.

Discrepancies between the different categories of investment fraud were limited, with some notable exceptions. For example, the weighting towards males was especially pronounced for share fraud victims, while fraud recovery was more likely to affect women than other categories. 'Other' investment types, including carbon credits, Ponzi schemes and land banking, tend to affect a younger profile of investor.

Finally, the population segments most likely to suffer from investment crimes are Mature and Savvy, Retired with Resources, and Affluent and Ambitious. However, while the Retired on a Budget segment was less likely to fall victim to investment fraud generally, they are particularly prone to the 'double-whammy' of fraud recovery.

No investor is safe from investment fraud. It affects the most experienced investors, and the least experienced investors. It affects richer investor profiles, but it also affects poorer investor profiles. Discerning a fraud from a legitimate investment opportunity is not a simple process.

What the quantitative analysis highlights is that no-one is immune from investment fraud because of prior experience or success as an investor; fraudsters specifically look to exploit investors' over-confidence and use it against them.

Whilst these findings describe the key characteristics of victims of investment fraud and provide a solid platform, they do not provide insights into victim attitudes and behaviours, or the key touch points during their engagement with fraudsters.

These quantitative findings have therefore been used as a guide to help determine which victims to include in a qualitative study. The qualitative phase of this project involves in-depth interviews with 31 victims of investment fraud. It explores all of the key stages of victims' experiences with investment frauds, including how they were made to feel by fraudsters, how they were persuaded to invest, and possible interventions which could have been made to alter their investment decision-making process.

Acknowledgements

Appendix 1 – How to avoid investment scams

Investment scams come in many forms and with different tricks but a common feature is being promised a high return or tax-free benefits. See the steps you can take to spot and avoid investment scams.

Fraudsters might contact you out of the blue after taking your phone number from publicly available shareholder lists. But the high-pressure sales tactics can also come by email, post, word of mouth or at a seminar.

You might be told you could get inside information, trade secrets, a hot tip or special expertise, often in overseas markets or in companies you have never heard of. But this should be a warning sign that this could be a scam that will mean you lose most or all of the investment.

To help you spot and avoid investment scams, follow these ten steps to protect yourself.

Step 1: Be firm in saying 'no'

Keep in mind that authorised firms are unlikely to contact you out of the blue with investment opportunities. A legitimate company is also unlikely to use harassment, high-pressure sales tactics, or long and persistent phone calls, to get you to invest.

Be firm: if they can keep you talking, you have not really said 'no'.

Step 2: Avoid unwanted sales calls

Reduce the number of unsolicited mailings and cold calls you receive by registering with the Telephone Preference Service and Mailing Preference Service.

Step 3: Check the Register

We strongly advise you to only deal with financial services firms that are authorised by us, and check the Register to ensure they are.

If there are no contact details on the Register or the firm claims they are out of date, contact our Consumer Helpline on 0800 111 6768.

Step 4: Confirm the firm is genuine

To confirm the identity of an authorised firm ask for their 'firm reference number' (FRN) and contact details, but always call them back on the switchboard number given on the Register.

You should access the Register from our website – www.fca.org.uk/register – rather than through links in emails or on the website of a firm offering you an investment. Also check the address of our website is correct and there are not subtle changes that mean it is a fake.

Step 5: Search our list of unauthorised firms

Search our list of unauthorised firms to avoid doing business with, although their names are likely to change regularly.

We add new names to this list as soon as possible, but if the firm which has approached you does not appear on our list, do not assume it is legitimate – it may not have been reported to us yet.

Step 6: See warnings from abroad

If you are dealing with an overseas firm or scheme you should check how it is regulated and follow similar steps to these.

We also have some warnings from foreign regulators about firms conducting unauthorised business.

Step 7: Ensure you are protected

Remember that if you give money to a firm that is not authorised by us or is based abroad, you will not have access to the Financial Ombudsman Service (FOS) or Financial Services Compensation Scheme (FSCS) if things go wrong.

Step 8: Get professional advice

Consider getting independent professional advice before making any investment decision, particularly if the type of investment is unfamiliar to you.

Fraudsters are often vague about the investment and how it gives such high returns, or will explain it in complex detail – but if you don't understand how it works, do not invest.

Step 9: Beware of a second scam

Be especially careful if you have already been scammed by fraudsters as they are likely to target you again or sell your details to other criminals.

The follow-up scam may be completely separate or related to the previous fraud, such as an offer to buy the investment after you pay an administration fee.

Step 10: Report the scam

If you have been approached about an investment scam or think you are a victim of a share scam, contact our Consumer Helpline on 0800 111 6768 or use our share fraud reporting form.

You can also see what to do if you think you have been scammed.

Appendix 2 – What to do if you have been scammed

You can report the firm or scam to us by contacting our Consumer Helpline on 0800 111 6768 or using our share fraud reporting form. Please provide as much information as you can about your investment and the company involved, including their contact details and 'firm reference number' (FRN).

If you have already bought or sold shares through a boiler room, be especially careful as fraudsters are likely to target you again or sell your details to other criminals. The follow-up scam may be completely separate or related to the previous fraud, such as an offer to get your money back or buy back the shares after you pay an administration fee.

Find out more about what to do if you think you have been scammed.

Appendix 3 – the FCA's Consumer Spotlight segmentation model

| Retired with resources 14% | Affluent and ambitious 11% | Living for now 14% | Starting out 9% | Stretched but resourceful 14% |
| Retired on a budget 7% | Mature and savvy 7% | Striving and supporting 8% | Hard pressed 10% | Busy achievers 7% |

The FCA's Consumer Spotlight segmentation model breaks the UK's population down into 10 different segments, each displaying certain circumstances, behaviours, and attitudes. The segments are:

Retired with resources (14% of the UK's population)

Retired people, living comfortably on income from pensions and savings, very rarely going overdrawn or needing to take on debt. The majority have the resources to deal with an income or expenses shock. Some use expert financial advice but they are also well informed. An optimistic and confident group.

Retired on a budget (7%)

Retired elderly people, living on low incomes, often alone. Organised and careful with money, they avoid debt and tend to be very loyal to a small number of financial service providers. Many with access challenges due to poor health or disabilities, they are likely to rely on cash and cheques to make payments.

Affluent and ambitious (11%)

An affluent working age segment more likely to be men, many are married with children living at home. Financially secure, confident and optimistic, they are likely to own a large number of financial products, including savings and mainstream credit. They enjoy shopping around for the best deals, often online.

Mature and Savvy (7%)

An affluent, middle aged segment, more likely to be male. Working and usually home owners, most have some form of savings and investments. They are very confident money managers and generally find it easy to keep up with their financial commitments. A secure and optimistic group.

Living for now (14%)

A relatively low income group, more often younger and male. The majority work and keep on top of bills but they tend to be less organised with money than others and can be prone to risk taking. Although internet savvy, they lack confidence in financial decision making, often relying on friends or family for advice.

Striving and supporting (8%)

A low income segment, mostly female and the majority with dependent children. Most work but although risk averse, money management is a struggle. They may fall behind on payments, find it difficult to meet an unexpected expense, and rarely switch providers. A busy and pressured group.

Starting out (9%)

A young segment of men and women, with more than half from minority ethnic groups. Despite many having higher level qualifications with some still studying, incomes are relatively low. They may struggle to make ends meet, often relying on credit to get by, but they have a strong support network and are confident and optimistic about the future.

Hard pressed (10%)

A low income segment of men and women, most are single but many live with dependent children. The majority are out of work and keeping up with bills is a struggle. With low financial confidence and limited access to mainstream credit, this segment finds it hard to make ends meet.

Stretched but resourceful (14%)

A family segment of men and women with children, almost all in work. Incomes are relatively high and more than half own their home with a mortgage. Although generally able to keep up with bills, credit use is high. Confident but time poor, many would struggle to cope with an income or expense shock.

Busy achievers (7%)

Mainly female and married, most have children living at home. The majority work and household incomes tend to be high. Most have savings as well as loans and credit cards and

although often overdrawn, they are able to keep up with household bills. Very time poor, but optimistic and confident about the future.