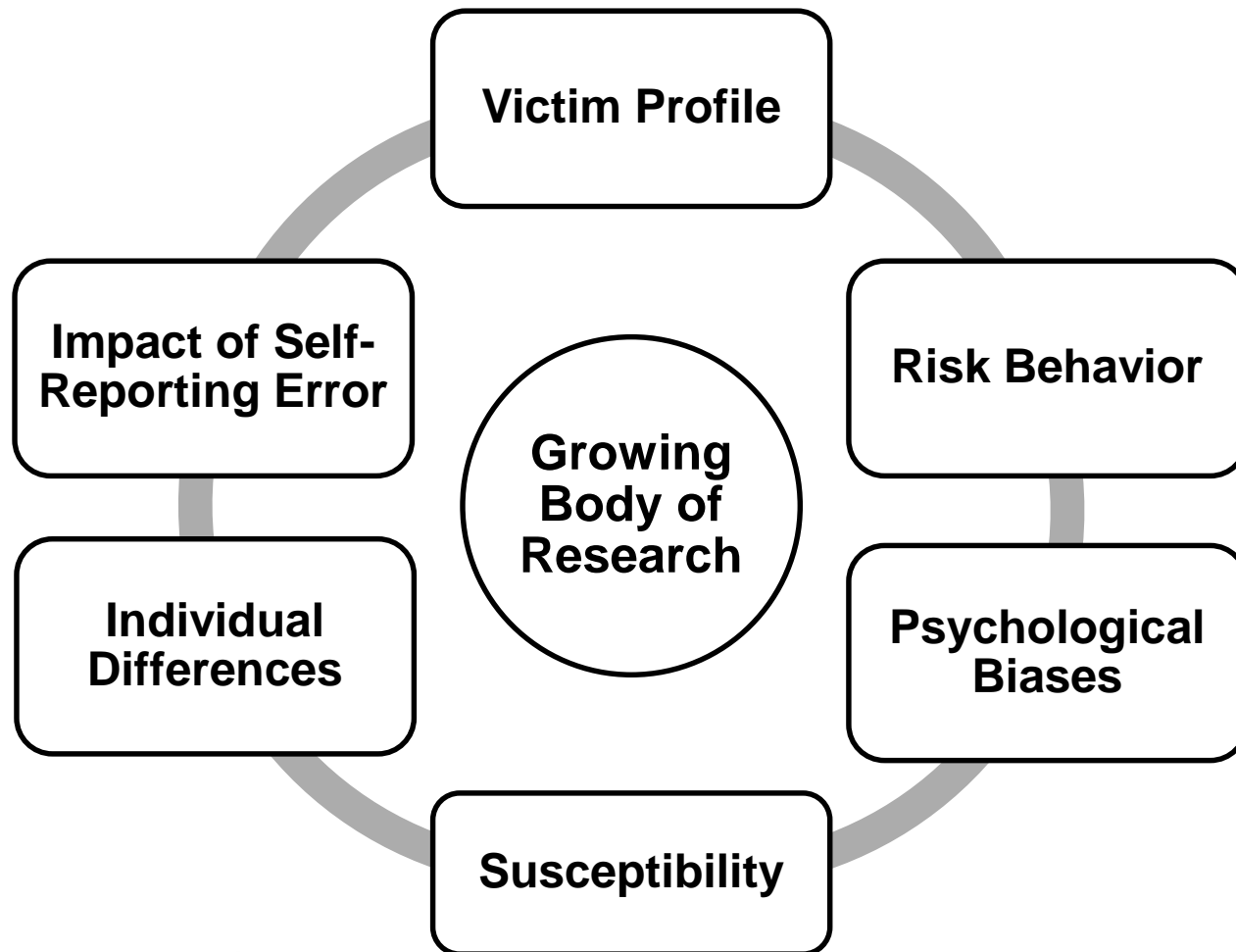


Understanding and Combating Investment Fraud

Pension Research Council Symposium – May 6, 2016



Protecting Consumers from Fraud



Fraud Prevalence and Impact

More than **8 in 10** solicited for potentially fraudulent offers

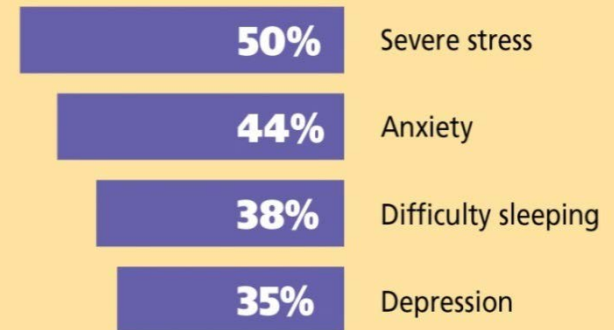


\$50 BILLION
per year lost to fraud

Financial fraud prevalence is hard to measure. Estimates vary from about 4 to 14 percent.



NEARLY **2/3** of victims reported experiencing at least one non-financial cost of fraud to a serious degree.

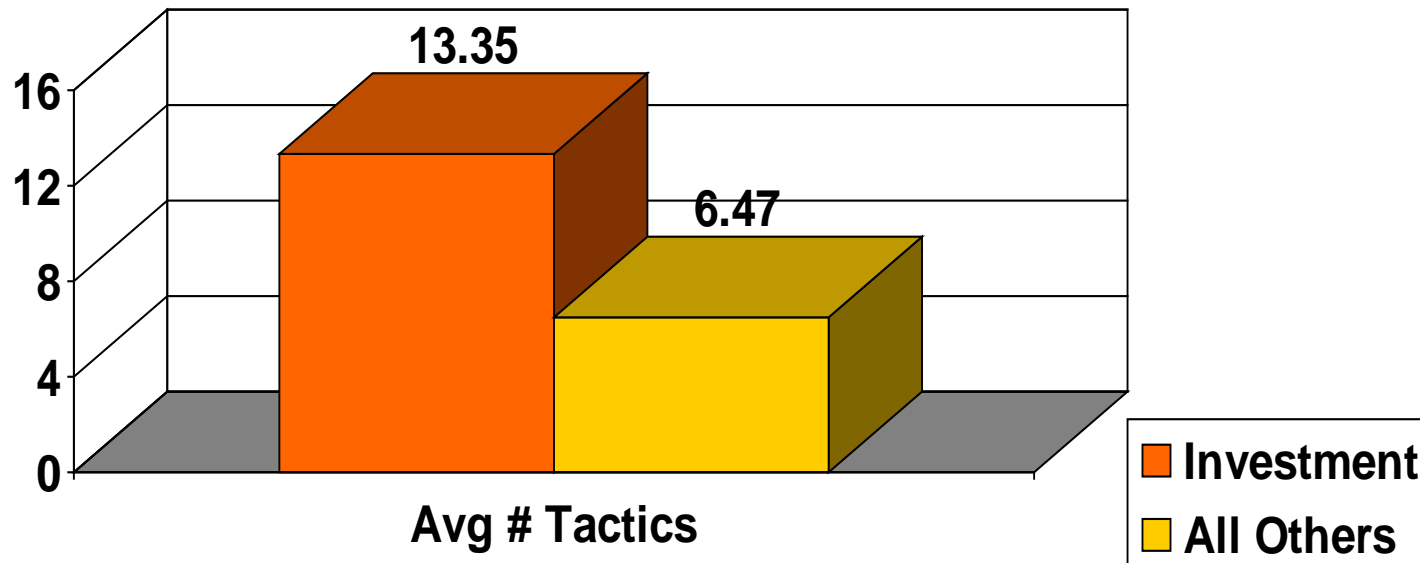


Sources: FINRA Investor Education Foundation research reports, *Financial Fraud and Fraud Susceptibility in the United States* (2013) and *Non-Traditional Costs of Financial Fraud* (2015). Stanford Center on Longevity research report, *Scams, Schemes & Swindles: A Review of Consumer Financial Fraud Research* (2012)

Fraud Weapon – Social Influence

- ▶ Scam pitches are tailored to the “hot buttons” of targets
- ▶ An investment fraud pitch is full of influence

Average # Total Tactics per Transcript



Source: Consumer Fraud Research Group, *Off the Hook Again: Understanding Why the Elderly Are Victimized by Economic Fraud Crimes* (2006)

Red Flags of Fraud

Phantom Riches

Dangling the prospect of wealth, enticing you with something you want but can't have.



Source Credibility

Trying to build credibility by claiming to be with a reputable firm or to have a special credential or experience.



Social Consensus

Leading you to believe that other savvy investors have already invested.



RED FLAGS OF FRAUD

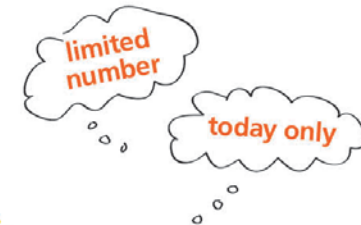
Reciprocity

Offering to do a small favor for you in return for a big favor.



Scarcity

Creating a false sense of urgency by claiming limited supply.



Investment Fraud Victim?

Fraud victims are often old, naïve, gullible, greedy, mentally deficient, elderly, and family-led.



The Demographics of Fraud

- ▶ No single victim stereotype
- ▶ Age and fraud victimization
- ▶ Beyond age
 - ▶ Gender
 - ▶ Income
 - ▶ Education

The Psychographics of Fraud

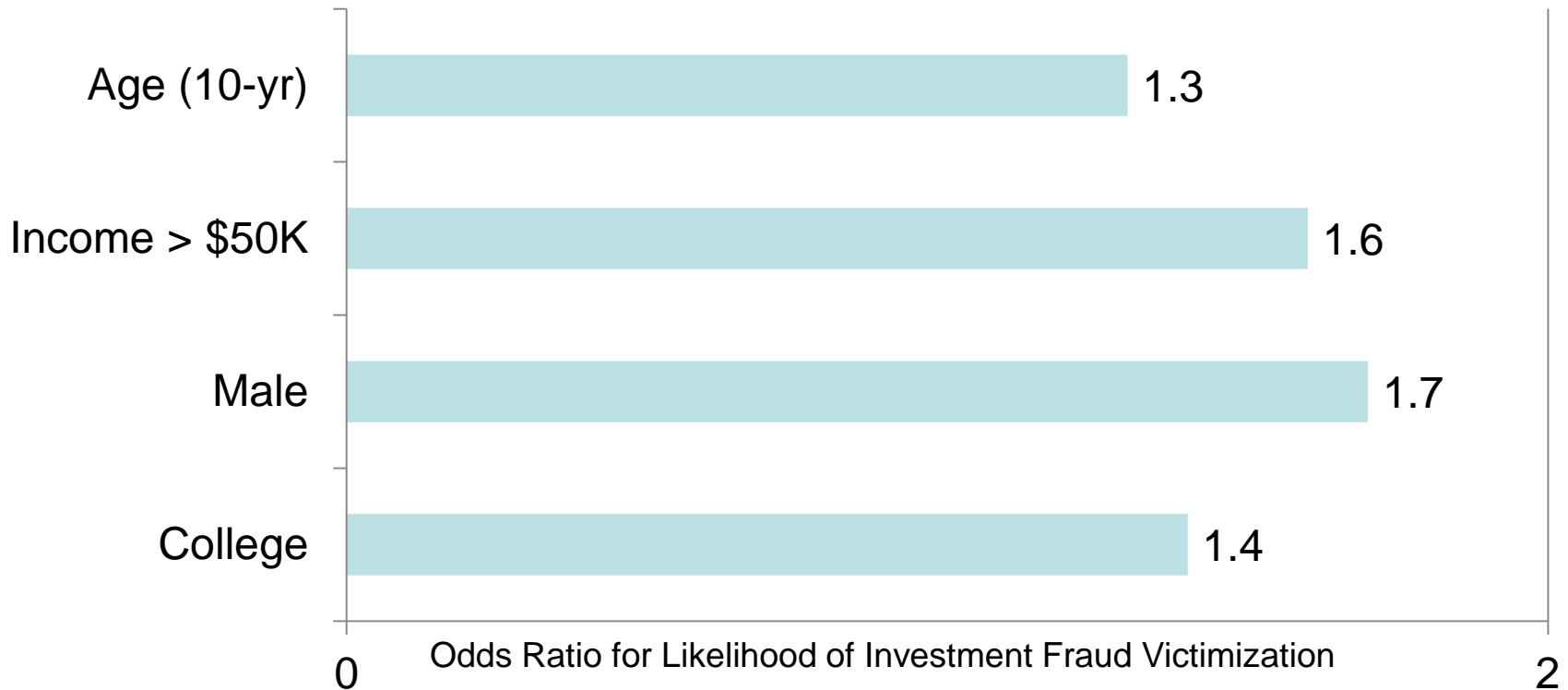
- ▶ Risk tolerance
- ▶ Perceptions of debt
- ▶ Impulsiveness
- ▶ Financial literacy

The Role of Targeting

- ▶ Two kinds of vulnerability
 - ▶ Falling victim once targeted
 - ▶ Likelihood of being targeted
- ▶ Examine the role of *demographics*, *psychographics* and *targeting* on investment fraud

The Role of Targeting

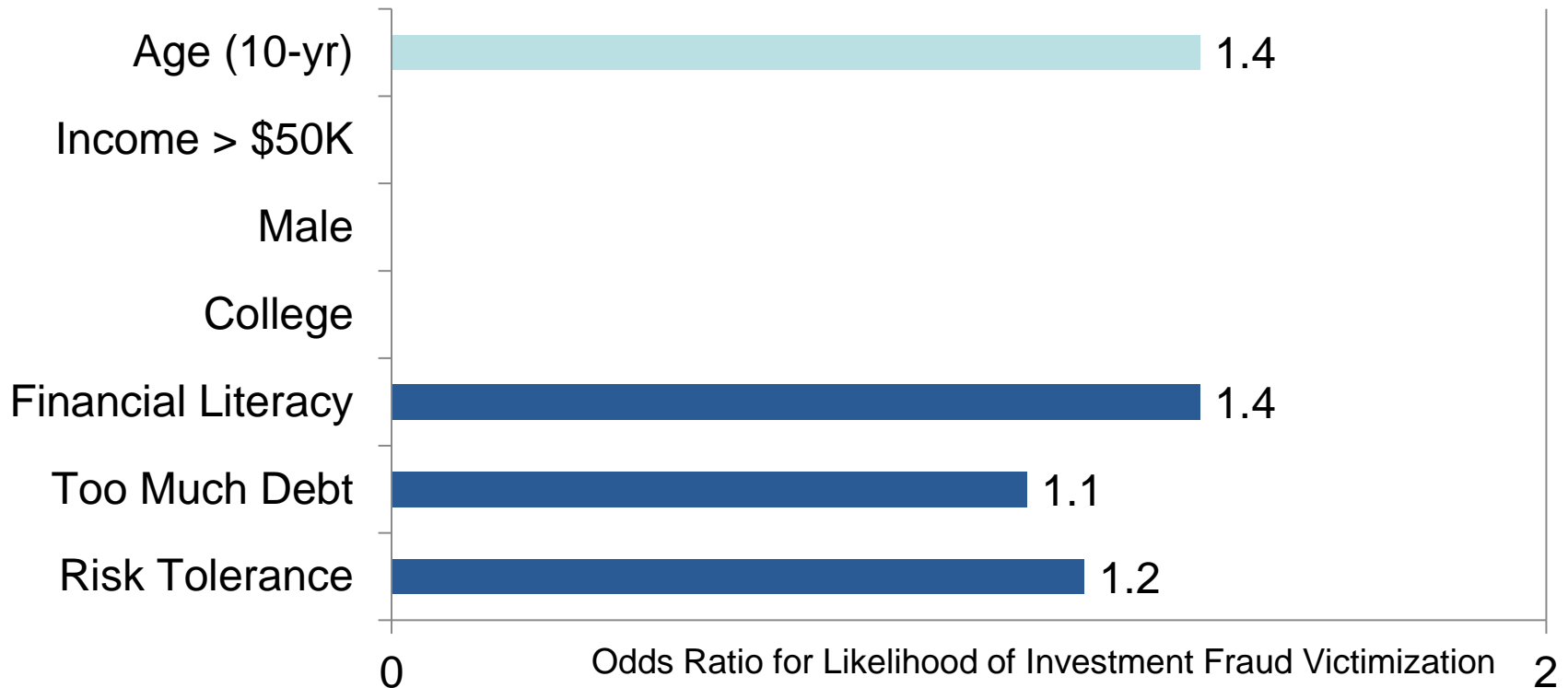
Demographic Model



Source: Authors' calculations based on data from the Fraud Susceptibility Study (2013) and the National Financial Capability Study (2012).

The Role of Targeting

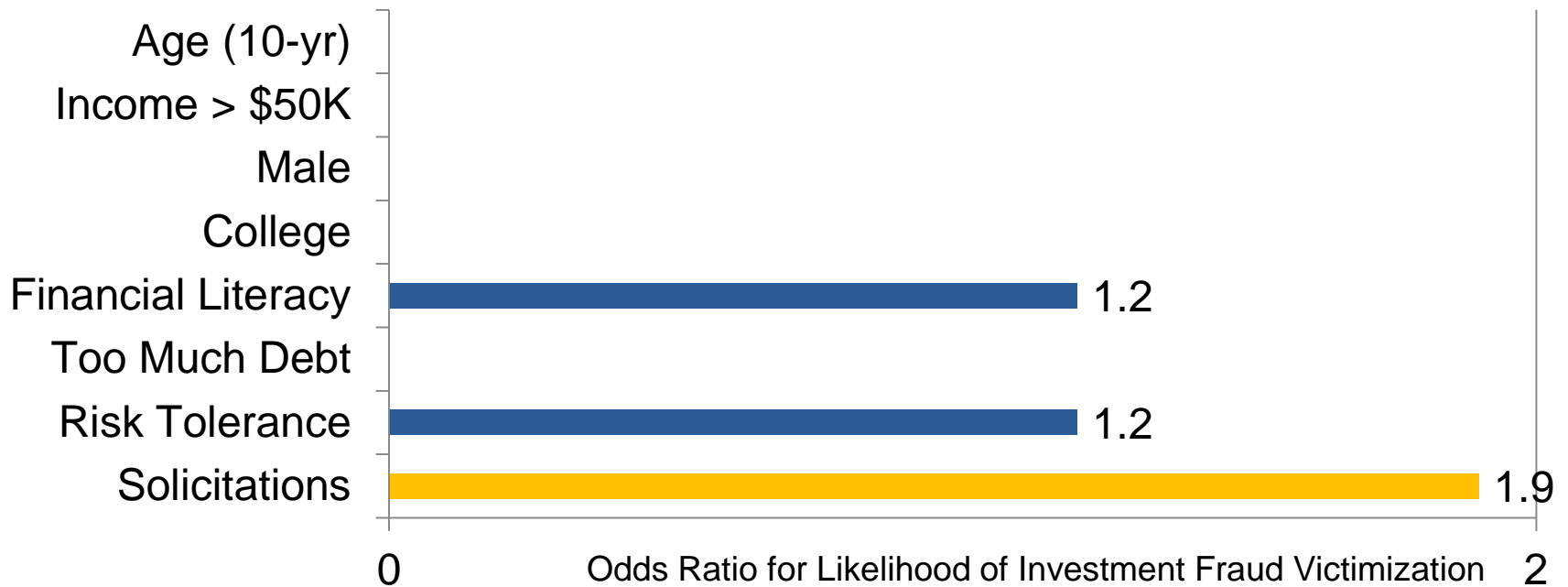
Demographic and Psychographic Model



Source: Authors' calculations based on data from the Fraud Susceptibility Study (2013) and the National Financial Capability Study (2012).

The Role of Targeting

Demographic, Psychographic and Targeting Model



Source: Authors' calculations based on data from the Fraud Susceptibility Study (2013) and the National Financial Capability Study (2012).

Who Tends to Get Targeted?

Older

Male

Higher
Income

College
Educated

Challenges to Preventing Fraud

Psychological Barriers

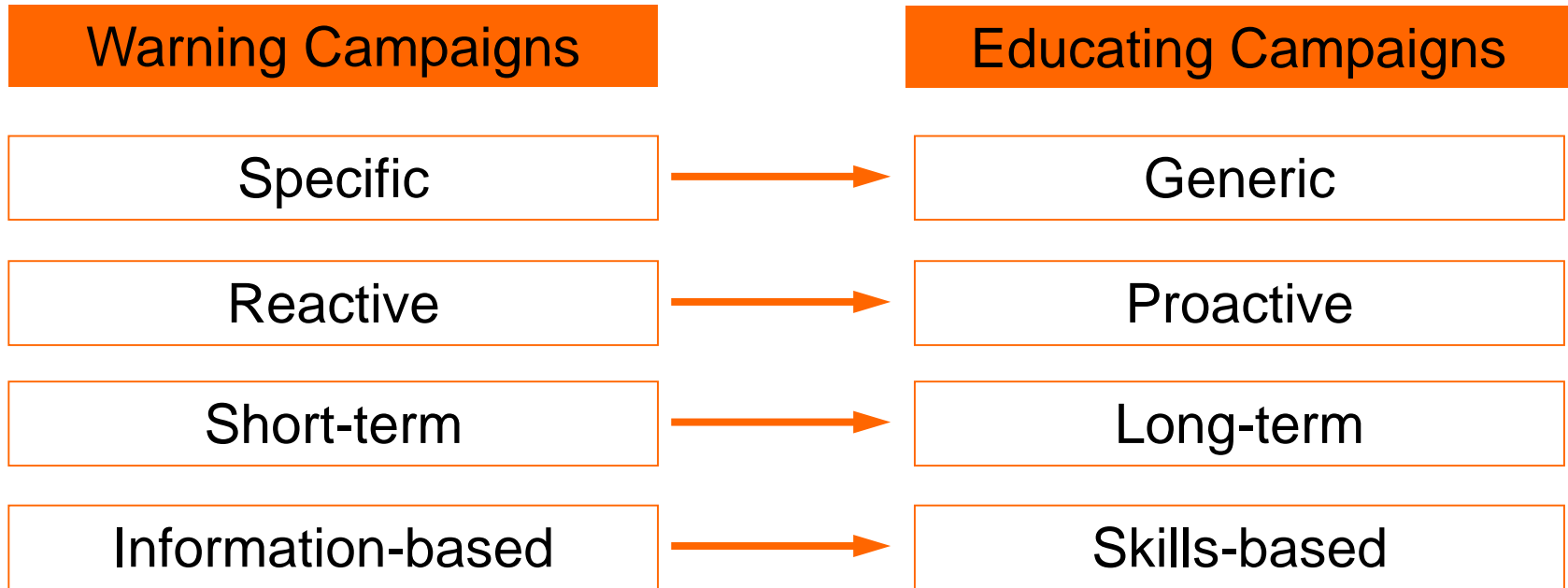
- ▶ Illusion of invulnerability (I can't be taken.)
- ▶ Reactance (You're not the boss of me.)
- ▶ Threats to self-esteem (I am not stupid.)
- ▶ Too much information (I can't remember what you taught me.)

Systemic Barriers

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

Moving Beyond Warning Campaigns

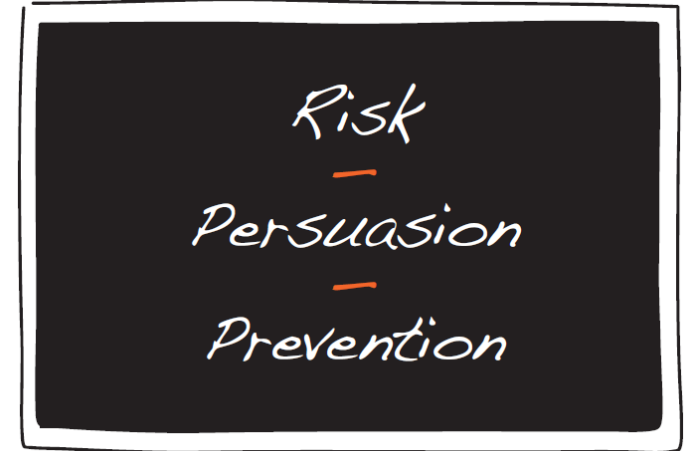
Investor alerts and warning campaigns have limited focus.



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

Investor Protection Strategy

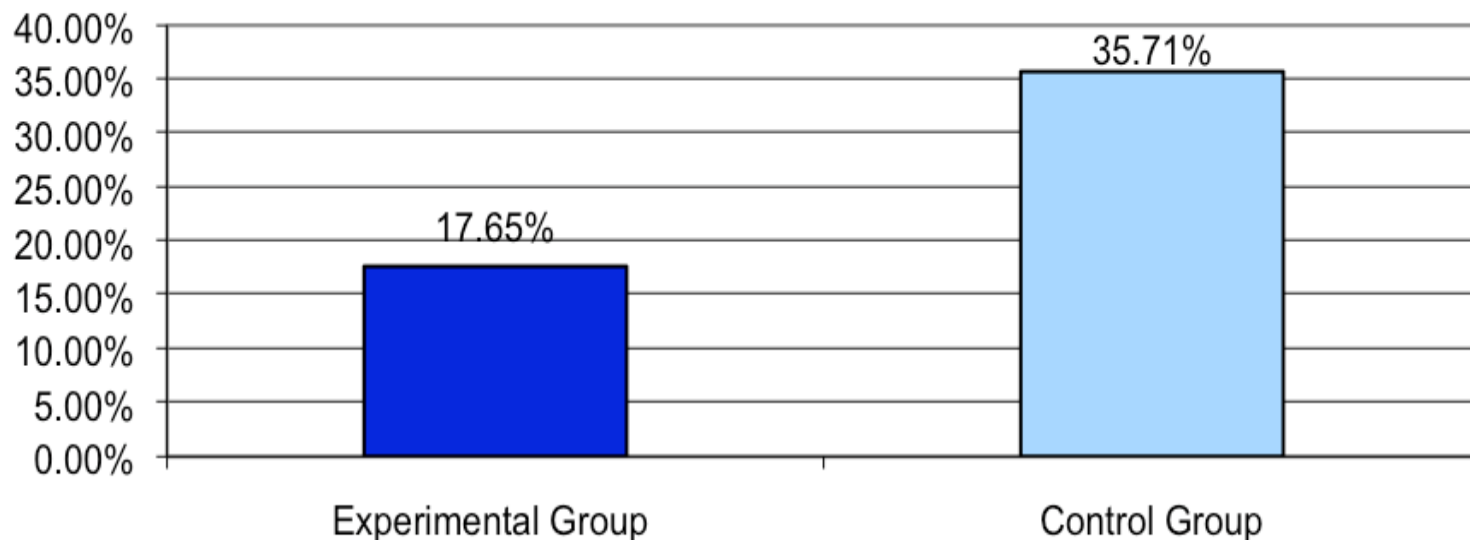
- ▶ Ground in research
- ▶ Build partnerships
- ▶ Teach Investors to:
 - Know that are vulnerable
 - Recognize persuasion techniques
 - Take simple, highly protective steps (*“Ask and Check”*)



Field Testing a Curriculum

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

Percentage of Respondents who Agreed to Receive Information



Source: FINRA Investor Education Foundation



Questions?

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