Clever.

Stay safe financially

What will you learn?

- What are some common tricks and tactics the scammers use?
- How does it feel to be a victim of a financial scam?
- What is the financial services industry doing to help combat financial crime?

Introduction

Denim jackets, Ray-Bans and Stranger Things are not the only 80's revivals. So are Ponzi schemes and other investment and pensions scams.

2020 has been a year that has changed the world we live in, but one constant remains: the scam artist. With more people embracing the digital world, or relying on it entirely, there has been a surge in online cybercrime and private individuals are often the worst hit.

There has been a flood of reported scams over the first half of this year, from imposters pretending to be from a trusted bank, scamming people out of their pension fund, to Ponzi type schemes that lure people in to part with their hard earned cash with the promise of miraculous short-term gains.

The global COVID-19 pandemic has also spurred them on. In March 2020, Action Fraud recorded a 400% increase in fraud reports linked to COVID-19.

Each and every scam plants a small seed of doubt or fear in an investor's mind, damaging the public's trust in legitimate, qualified financial planners and investment managers.

What is a Ponzi scheme?

Named after a well-known operator in the 1920s, a Ponzi scheme can usually keep paying investors as long as new investors contribute enough new funds, however the ‘profits’ will likely be somebody else’s new investment.

Ponzi schemes, and other investment scams like them, lure investors in with the promise of big returns on relatively small investments, then entice them to invest much larger amounts, which they often don’t get back, usually because there isn’t enough money coming in from new investors to cover this larger investment.

Most common methods for scams

Although having access to greater information instantly online has brought great benefits to consumers and the way we live and work, the same technology can sometimes make us vulnerable to attack.

The most secure online technology is no defence against the devious and determined financial predators who would take advantage of one’s good nature and general trust in people.

A simple communication via email, phone call, text message or online advertisement could be the first step in getting your attention. And then the false claims begin. They are designed to sound as attractive as possible to investors, maintaining a friendly conversation to establish trust until, ultimately, they convince you to part with some or all of your pension pot, investment portfolio or savings.

What happens to your money?

Once they have access to your money, the outcome is most commonly one of three scenarios:

- It is unlikely that your money is invested at all. In the case of a Ponzi scheme, new investors' capital is used to pay 'fake yield' to existing investors, a cycle that keeps repeating as new investors come on board.
- If it is invested, your money could end up in unregulated investments with high fees and charges or unusual, illiquid and high-risk investments that are inappropriate for your risk profile.
- It could end up in an unnecessarily complex structure which is designed to hide layers of fees and additional charges.
- And in many cases, particularly among the vulnerable, the money is simply stolen outright and the culprit vanishes.

What tricks do they use?

We know the scammer's end goal. How do they convince us to part with our money and what are the tactics they use? According to data from the UK financial regulator, the Financial Conduct Authority (FCA), the most common red flags people should be on the lookout for when trying to spot scams include:

- Free pension reviews or new investment opportunities
- Higher returns – guarantees they can get you better returns on your savings
- Help to release cash from your pension even though you are under 55 (an offer to release funds before age 55 is highly likely to be a scam and you could lose 85% of your life savings)
- High-pressure sales tactics – the scammers may try to pressure you with 'time-limited offers' or even send a courier to your door to wait while you sign documents
- Unusual investments – which tend to be unregulated and high risk, and may be difficult to sell if you need access to your money
- Complicated structures where it is not clear where your money will end up
- Arrangements where there are several parties involved (some of which may be based overseas) all taking a fee, which means the total amount deducted from your pension is significant
- Long-term investments – which mean it could be several years before you realise something is wrong

“It won’t happen to me” – an investor case study

The following case study is a true, first-hand experience of a UK investor who managed to get involved in a potential Ponzi scheme, the impact it had on their financial and personal wellbeing, and how it ultimately left them feeling. By request, we have kept the investor anonymous.

Sam’s story...
“I was offered an opportunity to invest a significant amount in ACME Investing Inc (ACME)* via an ‘AI’ managed investment system. I had already invested a small amount with them (around £10,000) and had received some incredible short-term profits (around 20% per month) so I wanted to know if the company was legitimate.

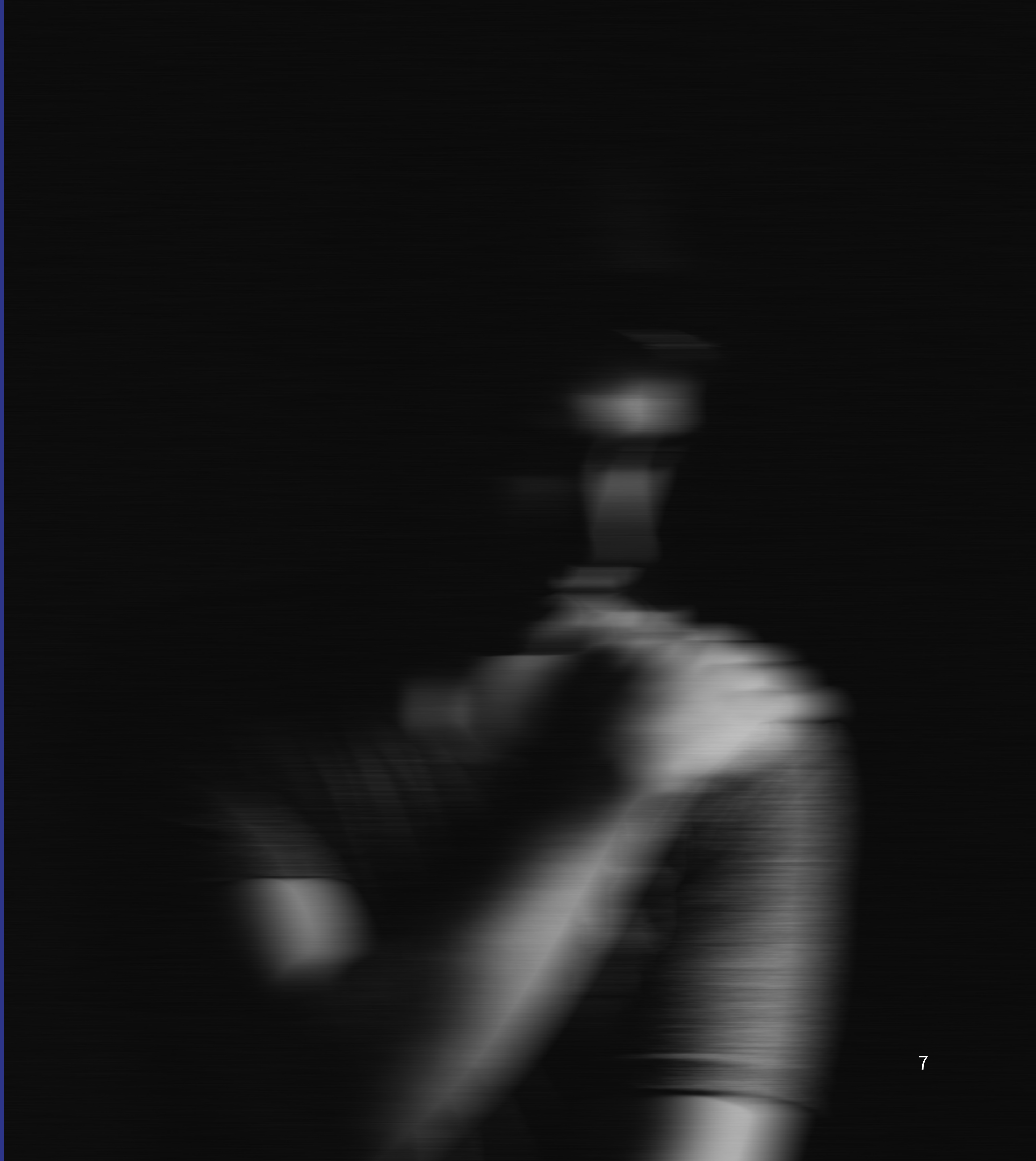
At this stage I hadn’t tried to withdraw my original investment or any of the claimed profits, but I did ask about how to do so. They told me I could withdraw my original investment with 10 days’ notice, but I would have to give 30 days’ notice to withdraw any of the profits. They also told me that the easiest and most profitable way to withdraw any funds would be via a Bitcoin account, which they would be happy to set up for me.”

*ACME Investing Inc is a fictitious business name for illustration purposes

We investigated on behalf of Sam, and it did not take long to uncover the truth about ACME.

The ACME website looked incredibly cheap, dysfunctional, and very inconsistent. It had lots of stereotypical photographs including ‘investment professionals’ in oak board rooms and even people standing around bars of gold in a bank vault. There were several global telephone numbers, and after testing each one we discovered they were all answered by a small number of similar voices with Eastern European accents.

More concerning was the statement they are regulated in the main body of their website, contradicting their legal notice which stated they are not regulated. Not being regulated by the FCA means victims cannot register a complaint with the Financial Ombudsman and their investment will not be protected by the Financial Services Compensation Scheme (FSCS). Depending on how sophisticated the scam is, sometimes a fake website can look very legitimate, borrowing language and visuals that echo real financial brands. It can be difficult to know who to trust so it’s always best to check the FCA’s register to ensure you’re dealing with a regulated business.



If Sam's investment had gone badly wrong, he would have had no one to turn to, unless he hired a solicitor or similar professional to fight his battle for compensation, assuming of course they were able to find ACME, who had no registered offices.

The website also boasted of 100% compound investment returns, an average of over 20% returns month on month. They even had links to some of the apparent trades that were made to achieve those returns, but the trades they were linking to were unverifiable.

Other warning signals included false awards, links to staged interviews, illegal referral scheme offers and so on. The website was designed to attract naive investors, with promises of quick and fantastic returns - all the signs of a Ponzi scheme, which lures investors and pays profits to earlier investors with funds from more recent investors.

Finally, we checked the FCA register for mention of ACME, and sure enough there were clear warnings about the company and recommendations to avoid them.

Fortunately for Sam his experience had a happy ending. He got his original investment back and eventually some of the promised profits.

However, his win came with a bitter taste once he realised his profits came most likely at the expense of someone else's loss. He even received a gift some days later from ACME – a box of good quality chocolates and a gold USB bitcoin purse, to which we suggested, "burn it, don't let it anywhere near your PC!"

How can you protect yourself and loved ones?

These organisations and threats are not going away any time soon, however the more awareness we can raise about them the less effective they will become.

In a study the FCA found that more people are likely to report fly tipping (81%) than they are to report financial scams (63%). This alone is a problem that we must deal with. Informing the authorities, and regularly checking your credit rating activity with a credit reference agency such as Experian or Equifax, are some of the best weapons against financial and cybercrime.

Here are some tips on how to identify fraudulent activity and help protect your loved ones:

- Reject ALL unexpected offers. Hang up on cold calls or anyone asking for your financial details – it is illegal.

- Know who you are dealing with. Take the time to double check, speak with family or friends and, most importantly, ensure you are dealing with an FCA-registered financial adviser. You can check their credentials in minutes at www.register.fca.org.uk.

- Check contact details carefully. Scammers have been known to 'clone' legitimate financial adviser websites to pass themselves off as the real thing. Always use the contact details on the FCA register.

- Too good to be true? Take the time you need. 'Time-limited' offers or deals that sound too good to be true normally are. Your pensions, investments and savings are your most valuable possessions, and a qualified financial adviser will never rush you into a decision.

- Do your homework. Do not allow someone to tell you what to do with your own money. There are free and impartial services such as the Money and Pensions Service that can explain your options.

- 'Pension liberation' deals should be avoided: You cannot access your pension benefits until 55, an age set by the government. Scammers may promise you early access to your savings, but the costs are high. You can lose more than 85% of your life savings so it can cost you your future.

- Avoid it and report it: If an investment opportunity sounds too good to be true, or if they ask you for personal and financial details, contact Action Fraud.

Sources: FCA website, Action Fraud

Clever.

Watergate House
Watergate Street
Chester CH1 2LF

01244 346343
mail@cleveradviser.com
cleveradviser.com