

Hello and welcome to Module 5. This module deals with Affinity Fraud.

Affinity fraud is fraud among friends; scams that work, or at least try to work, because they work through a network of religious or cultural community ties, or friends from the same country.

A con artist will join a religious, ethnic or other close-knit group of people, will intentionally build a common bond — or affinity — with its members to gain their trust, and then defraud group members of their money. Don't be a victim. Protect yourself by understanding how it works.

In this video, we deal with the set up of the fraud, how con artists get away with the scam, who are particularly vulnerable target groups and finally, how to protect yourself.

The Set Up

Fraud Among Friends

Most of us, in one way or another, are connected to a group through our religious beliefs, ethnic background, culture, career or interests. Organizations in which we share common bonds with others often play a big part in our daily lives. They can be an extended family — friends who share the same values and whom we depend on for support and advice.

Unfortunately, because they are based on closeness and trust, these organizations also provide the perfect setting for a growing brand of investment scam known to regulators and law enforcement as “affinity fraud.” In these schemes, a con artist joins a religious, ethnic or other close-knit group of people, intentionally builds a common bond — or affinity — with its members to gain their trust, and then defrauds group members of their money.

Affinity fraud is a crime. In recent years it has caused many diligent, honourable people in Canada to lose millions of dollars of their hard-earned money to individuals they believed could be trusted.

Setting the Stage

Con artists who target religious and cultural groups are slick and convincing. Their financial success depends on getting others to trust them, so they will say and do whatever it takes to be accepted. Often they work their way into organizations by befriending a respected member of the group. Once they have gained that member's confidence, they are introduced to others. This is how they build credibility.

Introducing the Scam

Having been accepted, a technique the fraudster may use to introduce the scam is, first, to pitch a wealth-building investment to a few prominent members of a group. These schemes might involve offshore banking, property or take numerous other forms. Whatever the nature of the pitch, such investments offer benefits that can be hard to resist, even for the most cautious and aware investors, such as:

- being exclusive and available only to “those in the know” or those within the particular faith or culture
- promising spectacular returns and low risk

The fraudster realizes that people in close groups frequently trust investment advice, tips or recommendations from other members. This is why a key tactic is using references from a few

people within the group to persuade other members to part with their money. Once the fraudster has sold a few high profile members on the investment, their names can be used to give others a sense of confidence and dispel any skepticism. Con artists may also rely on group members to unknowingly recruit or bring more people into the scam.

Making the Investment Look Legitimate

Typically, affinity fraud involves a “pyramid” or “Ponzi” scheme. This is a ploy, often very elaborate, in which the con artist uses money from new investors to make payments to earlier investors. The scheme is designed to trick investors. Believing their investment is successful, existing investors enthusiastically endorse it and others are convinced. In reality, fraudsters almost always steal the money for personal use. As the scam runs its course, the supply of new investors inevitably runs out, the whole scheme collapses and most investors lose their money.

Getting Away with It

It is usually difficult to catch perpetrators of affinity fraud scams because victims are embarrassed to admit they were conned and reluctant to turn in “one of their own.” Even when victims realize they have been deceived, rather than notifying the authorities, they often keep quiet or try to work things out within the group. Con artists understand and exploit this reluctance to report the fraud. As a result, good people lose their hard-earned savings and sense of trust. The authorities cannot act without the cooperation of victims — and the fraudsters keep the money, moving on to repeat the scam with other groups in new places.

In BC, for example, 300 investors of a Fraser Valley church were swindled out of more than \$11 million through an affinity fraud scam perpetrated by a former church leader.

The BC Securities Commission levied a \$100,000 penalty and banned the con artist from the markets for life. The investors did not get back any of their lost money.

In Vancouver, unlicensed foreign exchange dealers sold high-risk investment contracts to Chinese and Iranian communities through ads in non-English language newspapers. The investments were rigged to ensure the dealers would profit and the investors would lose their money.

Target Groups

RELIGIOUS GROUPS

In the last five years, affinity fraud among religious groups and church congregations has grown rapidly and is now a widespread problem. Con artists are found in all denominations. This applies both to investment scams and to financial advisers who claim religious affiliation. The reason these groups are so vulnerable is that it is human nature to trust someone who purports to be religious.

MINORITY GROUPS

Some members of long-established minority groups have accumulated savings and achieved a certain standard of living through years of hard work. Often, they want to give back to their community to help others like themselves. However, this generosity often makes them easy prey for con artists who, despite sharing the same ethnicity or culture, are motivated by greed.

NEW IMMIGRANTS

Sometimes, new immigrants are isolated from the larger community. Language and other cultural barriers may limit their ability to get information and get an objective opinion on whether a proposed investment is legitimate or suitable. As a result, con artists see new immigrants as easy to exploit.

Protecting Yourself

- watch out for investments or advisers who exploit a religious connection; hold religious financial planners to the same standards as you would anyone else
- watch out for investments that seem closely tied to a particular religious belief: it does not make sense that an investment opportunity would be available only to members of a specific church or faith
- never judge a person's integrity by what they tell you about themselves: check them out
- beware of any new member of your group who begins talking about wealth-building investments
- don't trust any claim that religion-based investments are not regulated; most investments are regulated by securities laws and must be registered for sale
- get a prospectus or other written information — scam artists don't like paper; a legitimate salesperson must provide detailed written materials outlining the nature of the investment, the risks involved, financial statements and any restrictions on getting your money out
- watch out for non-traceable investments where money is taken with no documentation and no investment results
- don't be rushed into making a decision; if someone is pressuring you to make a decision, be suspicious
- be skeptical of anyone who discourages you or other investors from seeking professional advice from neutral, outside experts, such as a lawyer, accountant, investment counsellor, banker, or the Better Business Bureau
- check out the promoter and the investment; contact your provincial or territorial securities regulator to find out if the salesperson is registered to sell securities in your province and the investment is registered for sale, or if you have been a victim of affinity fraud.

Senior citizens are often targets of fraud. You can download this list and use it as the basis for a conversation with your father, mother or a grandparent to make them aware of what to watch out for. Share this list and ensure that the people in your community are also on the look out for con artists!

Thank you for watching and I'll see you again in the sixth and final module in the series.