

Financial Grooming: A Ponzi Fraudster's Modus Operandi



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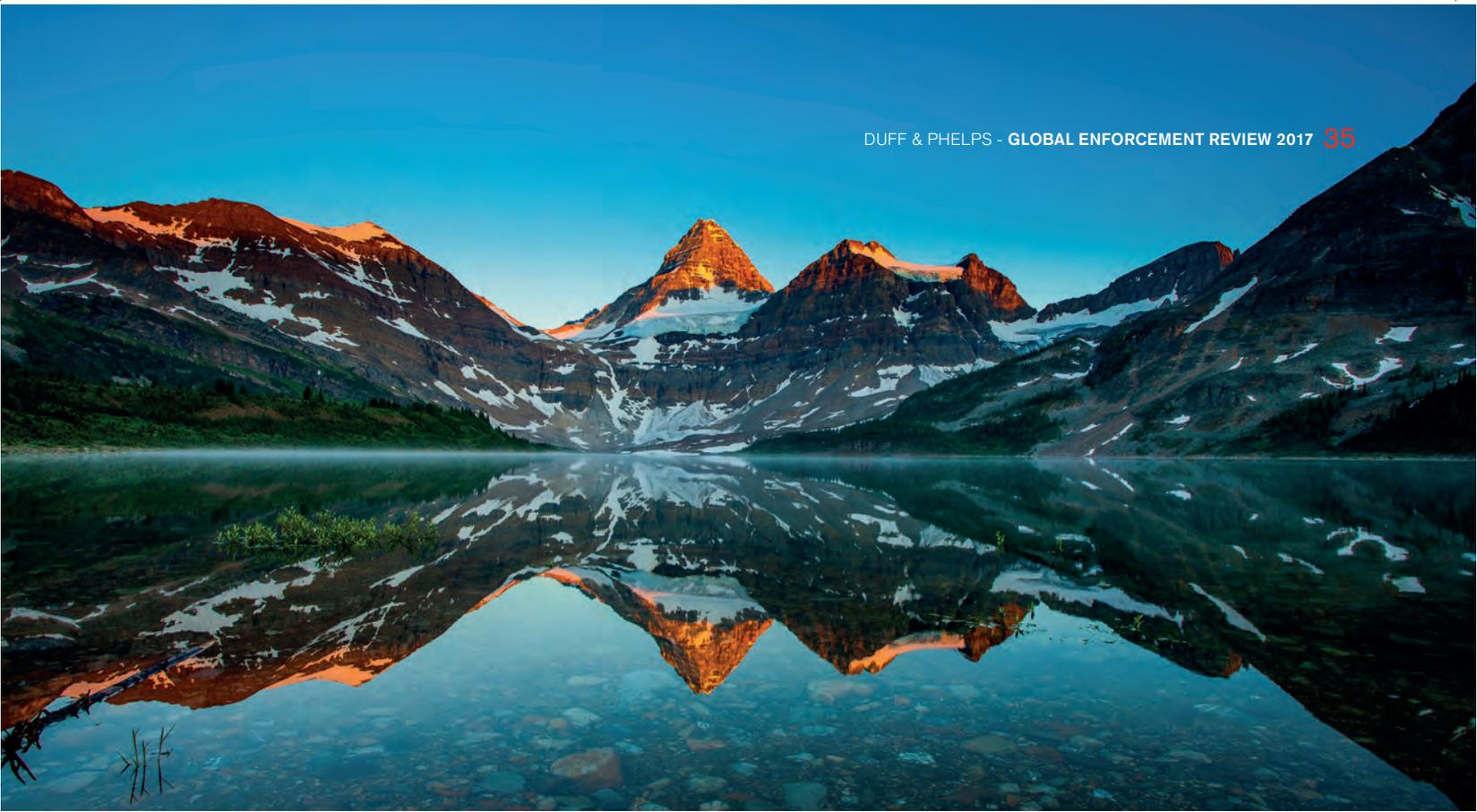
Following a number of investment fraud cases in the Channel Islands in the last ten years, Barry Faudemer, the Director of Enforcement for the Jersey Financial Services Commission, looks at the modus operandi of a Ponzi fraudster.

Several years ago I was sat in a meeting room with a group of ten people brought together by one thing: they had all fallen victim to a Ponzi fraudster. As these victims talked openly about their personal experiences of Ponzi fraud, I was struck by the similarities of each account. They had all been enticed to invest or, as they put it, 'groomed' by the same trusted professional.

Sharing their stories of how they had been defrauded, all the investors agreed that with the benefit of hindsight they now realised they had fallen victim to 'financial grooming'. Looking around the room it was immediately apparent that almost everyone fitted neatly into the retired with resources category, and the majority, if not all, were unsophisticated investors. Frustrated by low interest rates, they had all gone in search of higher returns and had clearly been an easy target for the skilful Ponzi fraudster.

In this particular case, the fraudster was an experienced client relationship manager who primed his victims to such a degree that they disregarded any attempted intervention from family or friends. Over time he secured their total trust and confidence, gaining unique insight into their vulnerabilities. He crossed the professional line by attending family weddings and funerals, helping with their personal issues and taking the lead in their financial affairs often following the loss of a partner. In short, the fraudster filled any void they might have had in their lives and ensured the fraudster was uniquely placed to exploit their vulnerabilities. Such was the level of trust and respect for his judgement that investors were content to place all, or a large proportion, of their life savings in the scheme he recommended. Many even recruited their family and friends to invest on his suggestion.

For regulators and law enforcement, engaging with victims of Ponzi fraud once they have been skilfully groomed presents unique challenges. Very often the person will be in complete denial that anything is wrong; they believe the fraudster over the authorities and feel irritated that the integrity of their trusted adviser is being questioned. Some



feel embarrassed that they have been deceived and will not discuss anything with close family and friends. Many blame themselves and are distressed, especially if they have encouraged others to invest. Elderly individuals in particular may be confused, suffer from memory loss or have become socially isolated. Others may have become dependent on social interaction with the fraudster.

Breaking down years of grooming can often be challenging but it is not impossible. In contrast to the extensive work, research and prevention methods put in place in relation to paedophile grooming, there still exists a significant knowledge gap on what constitutes 'grooming' by a Ponzi fraudster and more importantly how to spot it. Regulators and law enforcement agencies need to identify the early warning signs and learn new, swift intervention strategies. For example, if a victim has been groomed, the risk of past or future victims increases significantly so swift action is required to safeguard future victims.

The UK Financial Conduct Authority has conducted detailed research into the common characteristics

of victims of investment fraud, and this material is available on their website.¹ Other organisations have undertaken studies on profiling fraudsters, and this research is also online. By way of an overview, these criminals are primarily male, aged between 35 and 55, charming and engaging, usually relatively senior in a company and typically motivated by greed. They are likely to be supporting an extravagant lifestyle, living beyond their means and driven to succeed at any cost.

With these character traits in mind, coupled with identifying the warning signs of grooming and understanding why certain investors may have been targeted, I believe you can significantly increase the chances of spotting a Ponzi fraudster. Sadly, with an ageing population and a surge in unreported and reported financial crime, we can expect to see further cases of unscrupulous individuals endeavouring to groom their (often elderly) victims for financial gain. However, by raising awareness more generally to ensure that the public understands how Ponzi fraudsters groom their victims, we have a better chance of successfully protecting the most vulnerable members of our society.

¹ <https://www.fca.org.uk/publication/research/quant-study-understanding-victims-investment-fraud.pdf>