

Offender - Victim Interaction in Capital Investment Fraud

The intention of many people to increase their money with as high a return as possible is neither contemptible nor illegitimate. Money, however, is anything but a harmless commodity. To get at other people's money by illegal means, many do not stop at murder, manslaughter, armed robbery and other crimes. But there are much more subtle methods, which are successful without physical aggression, especially in the free, so-called "grey" capital market, which is not supervised by the Federal Agency for the Supervision of Financial Services in Bonn. The research project described here particularly examines the psychological aspects of the offender-victim interaction in the "grey" capital market in Germany.

The overall project entitled "Capital Investment Fraud in the Europe of the Single Currency, the Euro - an International Comparison of Structures, Motives and Activities of Offenders and Victims within the Single Currency Zone and their Interconnections to the Capital Markets of the Countries Switzerland, Liechtenstein and the Neighbouring Countries in Scandinavia and Eastern Europe" covers a period of four years and will be completed in the year 2003.

The project is composed of the following sub-projects:

- Offender-Victim Interaction in Capital Investment Fraud - Replication Study 2000
- Police Study in Germany
- Fraud Fighters - The Dutch System for the Prevention and Repression of Capital Investment Fraud
- Capital Investment Fraud in Europe - The Economic Science Perspective
- Capital Investment Fraud via the Internet
- Capital Investment Fraud and International and International Consumer Protection
- National Studies (descriptions of outstanding cases of the last five years and interviewing of offenders, victims and experts in Belgium, Great Britain, Holland, Ireland, Liechtenstein, Luxembourg, Malta, Portugal, Switzerland and Spain)

The sub-project "Offender-Victim Interaction in Capital Investment Fraud - Replication Study 2000" is the subject of this current project information.

The project is a commissioned project, carried out by Professor Liebel, University of Bamberg, which was supported by EU funds.

Conception of the Research Project

The research project builds upon the study "Motive Analysis of Victims of Capital Investment Fraud" of 1992. The introduction of the euro, the associated fears among the population and the development of capital investment fraud demanded a replication of the research project, in particular, however, the extension to the EU level and to the neighbouring countries of Scandinavia. The following factors made the research project necessary:

- the demand for financial products in the "grey" capital market worldwide,
- the need for protection of victims nationally and internationally,
- the necessity of finding pointers for an improvement of the legal instruments for supervision,
- the need to gain an overview of the volume of damage to investors in the "grey" capital market.

The general preventive aspect and the reinforcement of Germany's integrity as a place of financial business are in the foreground of the replication study.

The legal background of the study is a result of, among other things, the passing of the law on the implementation of the EU directives on the harmonisation of the regulations for the supervision of banks and securities markets. In June 1997, the Federal German Parliament (Bundestag) demanded, among other things, that abuses in this field be countered.

To be able to initiate prophylactic measures aimed at offenders and victims, sound information on

- the way the offenders set up the deals
- the methods used by the offenders to offer their services
- the motives leading the victims to accept such deals and
- features by which people making such offers can be recognised as fraudsters

is required.

On the basis of the new findings, preventive measures are to be broadened and modified. The aim is to create a "phalanx of prevention players" consisting of the Bundeskriminalamt, the police forces of the federal states, the public prosecutors' offices, the Federal Agency for the Supervision of Financial Services, the research institutes, banks and insurance companies, consumer associations, the mass media and any other people and institutions directly or indirectly affected by this subject.

Results

- Capital investment fraud is an international phenomenon.
- Organised groups of offenders from abroad are appearing increasingly.
- The telephone sales talks of the investment fraudsters to recruit new customers are becoming more and more aggressive.
- At the beginning of a business relationship, the offenders are keen to look after the potential investor very intensively, so that the customer gets the feeling of security and trust.
- Promises of high returns are the main incentive for the capital investment.

- By involving lawyers and notaries, the offenders give the impression of being bona fide.
- Under the pretence that an initial loss can be turned into a profit if new money is invested, the offenders usually succeed in inducing the victims to make further payments.
- The victims often even take out loans to get at the "big money".
- The victims overestimate their own competence and underestimate the criminal abilities of the fraudsters.
- Investors who have already been defrauded in the past tend to overestimate themselves to a particular extent.
- The victims' knowledge of capital investment fraud and the "grey" capital market is deficient.
- The victims are coming less frequently from the circle of family and acquaintances.
- The dark figure is high, as the readiness to report the offences is low among the circle of victims.
- Fifty per cent of the victims interviewed do not rule out the possibility of becoming victims again, despite their bad experience.

Phenomenology of Capital Investment Fraud

When it comes to inventing new products and new tricks, capital investment fraudsters prove to be very creative. The range of offers made by capital investment fraudsters extends from bank guarantee deals and land charge certificate trading to various savings schemes involving participation in firms and to real estate acquisition with capital return (cash back models). Offers of deposit loans (loans allegedly free of interest and redemption) and securities fraud via the Internet also belong to the fraudulent fields of activity. One can differentiate between two areas:

- the mixture of real business and fraud and
- the wilful intent to defraud from the very beginning.

The offenders may quite well restrict their activities to the Federal Republic of Germany alone, but can also extend them internationally (EU-wide), in both cases with alleged financiers at home and/or abroad. The duration of the deals depends on the respective investment package, i.e. on the kind of capital investment. In the new federal states, the phenomenology of capital investment fraud is marked by a large number of rather small sums (from 5,000 DM to 12,000 DM). For the most part, the money invested is not illegal money but can rather be assumed to be honest savings primarily intended to provide for the people in their old age.

Offenders and their Strategies

The mostly male offenders are between 30 and 60 years old and give the impression of being bona fide. They display pronounced social competence combined with a high level of formal

education - mostly without a final qualification. Their apparent life experience and their self-confident demeanour make them creditworthy. At the same time, they act in a psychologically skilful manner and are extremely persistent.

The first contact with the victim is made by unsolicited telephone calls, so-called "cold calls". With this sometimes very aggressive advertising and a skilful rhetorical approach, the criminal investment brokers often succeed in securing capital investment deals or in inducing old customers to "top up" money already invested. The formulation of the contracts is complicated. The genuineness of the products is backed up by the involvement of lawyers and notaries.

With the slogan "Yield, Sincerity, Availability" - in contrast to honest capital investment transactions - they create the impression of being able to have the increased capital generated by the investment at one's disposal in a very short space of time.

Victimology

The victims come from all sections of the population. There is therefore no classic clientele for capital investment fraudsters. The majority of victims are male. They often overestimate their competence. For example, they even enter into an investment deal although they are informed about the fraudulent investment scheme.

The investors often only learn that they are among the victims when the police approach as witnesses in the course of nationwide checks on customer address lists found. A large number of victims waive lodging a complaint due to assumed poor chances of success and unpleasantness.

In addition to the greed for money, the need for affirmation, self-realisation and esteem is also a motive to trust the promises of the capital investment fraudsters. By their demeanour and skilful sales methods, the offenders intensify these very desires of the potential victims. In view of the supposed prospects of a high profit, the victims even take out additional loans for further capital investment.

Action Required and Approaches towards Solutions

Research Required

In no other economic crime does the victim play such a large role in determining the form of the crime as in capital investment fraud. The victim's behaviour is the weak link. Successful prevention measures must therefore start by addressing the investor's procedure. Influence can sooner be exerted on a potential victim not to get involved in a criminal matter than it can on an offender to renounce his criminal intent. The latter becomes impossible when an increased number of organised groups of criminals become active. The one-sided criminological interest in the offender increasingly gives way to a more complex way of regarding the problem, focusing on the interaction between offender and victim.

Essential Education Work

It is necessary to sensitise the potential investors to the subject. The population must be better informed than before about the illicit activities of capital investment fraudsters. The fraudulent modi operandi must be brought more to the attention of the public. The mechanisms in the general economic and financial sectors, which are becoming more complicated, make it necessary to have lessons on this subject even at school.

Create Awareness of the Problem

The teaching of specialised knowledge on the activities in the capital market is of great importance. The potential private investor must be aware that no matter how finely the returns calculation is worked out, it can only be an approximation of the actual obtainable yield. For all prognostic processes are based on the assumption that yields will always be re-invested.

Necessary Initiatives of the Investors Themselves

The aim of prevention measures must be to make investors inform themselves comprehensively and not to rely on the statements of the salespeople. A comparative offer from one's own bank or at least the advice of finance experts from one or more financial institutions would be of help. It is recommended to be sceptical about the sincerity of broker firms and to contact a tax consultant, a lawyer or a police advice centre.

Recommendations

- Adoption of the subject in the curricula of all kinds of schools, so that awareness can already be created at school level.
- Information for the public about fraudulent modi operandi
- Promotion of the awareness that capital investment fraud is a criminal offence, not a misdemeanour
- Carry out joint education campaigns in co-operation with all institutions involved
- Reference to the obligation of the banks to educate their customers
- Restrictive supervision and control by the Offices of Trade in compliance with Paragraph 34 of the Trade Regulations
- Continuous checks on capital investment brokers and their professional competence by the supervisory authorities
- Evaluation of Paragraph 264 of the Penal Code

Ordering

This information sheet **Current Project Information 07** is expected to appear in the 4th quarter of 2002 as a "Research and Development" supplement in the Federal Police Gazette.

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