

Investment scams

Investment scams try to persuade potential investors to buy financial products – such as shares, property or high value goods – with the prospect of high returns or resale value. However there are various steps that you can take to determine whether the investment opportunity you are being offered is legitimate.

Introduction

Thinking about investing? Before you invest in any financial product it is important that you understand exactly what it is that you are buying into.

There are a wide range of investments to choose from. Common types of investments include shares, bonds, property and cash deposits such as ISAs. Different investments have different levels of risk and there is no guarantee that you will make any money on your investment. For an introduction to investments visit the FSA's Moneydeclared website (www.moneydeclared.fsa.gov.uk).

Most investments are sold through financial institutions (or their agents) that are authorised by the Financial Services Authority (FSA). But some investments are scams that are designed to trick you out of your money.

The good news is that there are various steps you can take to reduce the chances of becoming a victim of an investment scam.

What is an investment scam?

Investment scams try to persuade potential investors to buy financial products – such as shares, property or high value goods – with the prospect of high returns or resale value. Some of these involve overseas-based brokers or firms.

Initial contact is often made through unsolicited phone calls, emails or letters and often pressure the potential investor to make a quick decision. You should be wary if you receive an unsolicited call from a financial institution or broker, and they:

- Will not fully identify themselves
- Request personal details such as date of birth, full name and/or your bank account details
- Pressure you to sign up for the investment offered ('limited time only' or 'selling fast')
- Will not send you any documents in the post or say that documents will be sent after you've made a commitment to buy.

What steps should you take before you invest?

It is essential that you conduct your own research into the financial institution (and/or their agent) and the investment itself before you buy. This will help you to evaluate the risks and rewards of various

investment opportunities and reduce the chances of becoming a victim of a scam.

Check the FSA register online for free to see whether the financial institution (and/or their agent) is authorised to conduct investment business in the United Kingdom (www.fsa.gov.uk/register/home.do). If the financial institution is authorised and things go wrong, you may be able to access complaints procedures and compensation through the Financial Services Ombudsman and the Financial Services Compensation Scheme.

Do not buy investments from an unauthorised financial institution (and/or their agent). A list of unauthorised firms and individuals based both overseas and in the UK offering financial products to UK investors is available on the FSA website (see 'warnings and alerts'). This list is not exhaustive. If in doubt, contact the Moneydeclared helpline 0300 500 5000.

Obtain company information from Companies House such as the registered office and whether annual accounts have been filed. Much of this information can be accessed online for free.

Please note that Companies House is a registry of corporate information on all limited companies and certain other bodies in England, Wales and Scotland. It does not verify or validate the information it receives.

Throughout this guide, 'financial institution' refers to a bank, investment organisation and/or independent financial advisor.

Check the disqualified directors register online for free to see whether an individual is currently disqualified from acting as a director (www.companieshouse.gov.uk/ddir/).

Look on the internet to see what information is available on the financial institution. Try entering some basic search terms such as the name of the financial institution or a key manager or director to see what information you can find.

Ask your friends, family and colleagues – if no-one has heard of the financial institution by name you should carefully consider whether the investment is legitimate.

Is there a physical address? Is the financial institution more than just a letter, telephone number or website? Be wary of accommodation or PO Box addresses, particularly if you are dealing with a new or unheard of financial institution.

Check the auditors and annual accounts
Most financial institutions will have audited annual accounts available. Check that the auditors are a well-known reputable firm with both the resource and expertise to conduct audits of complex financial arrangements. Annual accounts are obtainable from Companies House for a small fee.

Compare the market to see whether the return you are being offered is realistic. Look at the returns offered by other well-known and similar investment schemes. If something sounds too good to be true it usually is.

Ask yourself 'what am I buying?' If you are not sure of the answer, you probably

shouldn't invest yet. Find out how your money will be used. For example, what proportion of the money you invest will be held as cash, used to buy shares or taken as commission or other fees? Always get these details in writing and never sign anything until you are sure.

Obtain independent financial advice before making a final investment decision. The amount you invest will depend on your personal circumstances. A sensible approach is to spread the risk rather than invest in only one product.

How to protect yourself

DO:

- ✓ Check that the financial institution (and/or their agent) is authorised by the FSA to conduct investment business in the UK.
- ✓ Research the financial institution (and/or their agent). Obtain company information, search the internet and ask friends and colleagues.
- ✓ Compare the market to determine whether the rates of return are realistic and consistent with those offered by other similar investments.
- ✓ Obtain independent financial advice.

DO NOT:

- ✗ Believe everything you are told.
- ✗ Feel pressured into making an investment decision.

Further information

Companies Investigation Branch
www.insolvency.gov.uk/cib/index.htm

Consumer Direct
www.consumerdirect.gov.uk

Financial Services Authority
www.fsa.gov.uk

Financial Services Compensation Scheme
www.fscs.org.uk

Financial Services Ombudsman
www.financial-ombudsman.org.uk

Fraud Advisory Panel
www.fraudadvisorypanel.org

Moneymadeclar
www.moneymadeclar.fsa.gov.uk

Office of Fair Trading
www.oft.gov.uk

United States Department of Justice
<http://www.usdoj.gov/criminal/fraud/internet/>

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