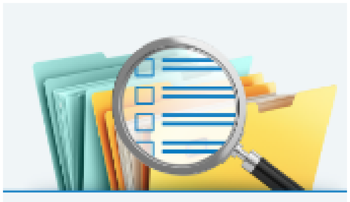
CAN YOU RESIST INVESTMENT SCAMS?



Case study based on story from media resources

Developed by the Socialinių inovacijų fondas (Lithuania)

Introduction

This case study aims to develop financial literacy, in particular fraud resilience, which is one of the competences of financial literacy that every citizen needs to acquire. According to the Bank of Lithuania (LB), the likelihood of encountering fraudsters in one's personal life is quite high as fraudsters become more active. In 2023, fraudsters defrauded as much as EUR 12.3 million from the population in Lithuania, and the number of fraud attempts increased by as much as one third compared to 2022.

There are different types of fraud and it is important to recognise them and know how to avoid them. These include data fraud, investment fraud, romance fraud and money laundering, as well as credit or loan fraud, inheritance fraud, charity fraud, fraudulent invoices, alteration of payment details, accidents or debts. In this analysis/overview, we will look at investment fraud and how a person can protect themselves against it.

Case analysis

Investment fraud is the illegal provision of investment services, i.e. activities where investment services are offered (provided) without a licence issued by the Bank of Lithuania or a supervisory authority of another Member State.

According to the Association of Lithuanian Banks, a couple of years ago, calls from unfamiliar numbers became widespread in Lithuania: a cheerful voice, often in Russian, offering to "invest" in gold, oil or cryptocurrencies, referring to the favourable economic situation and the potential of various "financial instruments". The case below is described on the website of the Association of Lithuanian Banks.

Viktoras, a salesman in Vilnius, received a call one day from an investment broker who introduced himself as Sergei. Sergei claimed to represent a reputable company—a name Viktor had never heard of, but which sounded typical of the financial sector. The broker explained that he had a profitable investment opportunity and suggested continuing their business communication via Skype or another chat application to facilitate sharing analytical data. The caller's confident tone left no doubt: he seemed to be a true expert in his field. Viktor was intrigued.

The same evening, on the chat app, Sergei's colleague shared his screen and showed the virtual environment their company uses to track investments and their growth. The colourful graphs and charts looked clear and informative. In order to create a "personal investment account", the brokers suggested that Victor download the software they recommended online. Without suspecting anything wrong, he did as asked. The broker advised him to start with a small amount of 200 euros to be deposited into the specified account and to see how the returns would grow. According to the broker, the current market conditions made it the best time to invest , and the offer would no longer be valid the next day.

The next evening, when he logged in, Viktor couldn't believe his eyes - his investment had already grown to €800! "Unreal," he thought to himself. - At this rate, I'll be able to save up quickly not only for a holiday but also for an apartment." Despite his excitement, Victor did not want to rush into further

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investments, preferring to watch his current one grow. However, the expert assured him that Viktor was doing well because of the very favourable market conditions, which were not always so advantageous. He emphasised the importance of taking advantage of the momentum and increasing the investment amount by at least double. After some thought, Victor transferred an additional €300 of his savings to the indicated account.

As the days went by, Viktor's investment continued to grow. When he invested €500, the colourful charts showed the amount had supposedly grown to €2,000 a week later. Still unable to believe his luck, he asked his broker if he could withdraw his money. The adviser politely explained that he could only withdraw the amount he had initially invested, i.e., €500. The next day, the €500 was in Viktor's account. Everything seemed very logical, and he felt much calmer.

Victor transferred the amount he had recovered back to the investment platform and a second amount after emptying his holiday savings account. The broker, however, was not satisfied with this - he kept encouraging him to look for additional "sources of funds": could friends lend money, or could he ask for a loan from a financial institution? So Victor told a friend about his new hobby. The friend was not very enthusiastic and advised him to recover his money, as he had heard of this type of fraud.

The broker, for his part, was growing impatient, sending Viktor daily messages urging him to add to his portfolio, expressing regret at seeing opportunities for enrichment go to waste. He called through an app, offering opportunities to significantly increase his investments that were supposedly available only for that day. When Viktor said he only wanted to work with existing funds, he did not answer. This communication began to annoy Viktor, who started questioning whether this was the behaviour of a reputable investment expert.

A couple of weeks later, when the amount on the charts reached €7,000, Viktor asked if he could withdraw the money he had invested and earned. The broker stated that if he withdrew from the platform, he would have to pay fees. Taking into account the company's potential losses, Viktor's debt to the company would amount to €10 000. Alarmed, the newly minted investor contacted his bank.

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After explaining the situation and the name of the company, he realised that he had been deceived - the specialists explained that such cases are quite common.

Victor could only console himself with the fact that he had not borrowed extra money for his new hobby. It turned out that the bank account to which Viktor had transferred the money did not belong to an investment company, but to a private individual. Viktor contacted law enforcement. An investigation is now underway. He hopes to get his money back, but he needs to start saving again for his holiday.

The table below shows statistics on how much people in Lithuania lost from 2017 to 2023 as a result of scams, as well as the number of complaints.

Year	**Residents who fell for scams lost a total of**	**Maximum amounts lost per capita**	**Complaints to the Bank of Lithuania about scams**
2017	700000	500000	62
2018	1100000	210950	70
2019	300000	97000	99
2020	538000	137269	60
2021	559000	125000	46
2022	219387	54000	30
2023	184911	55000	45

Table 1: *Source: the Bank of Lithuania.

Proposed solutions and recommendations

It is important to know how to protect yourself from financial scams by being able to recognise illegal investment offers. To this end, you need to increase your financial literacy - to gain knowledge and be able to find useful links with relevant information. It is also important to develop a critical mindset towards these situations. The information and tips below will help you to do this.

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Scammers use a variety of methods to deceive you, such as creating fake websites, advertisements, phone calls or emails. However, it is easy to spot a scammer if you are aware of the following signs and pay attention to them:

- *Promising fast and unrealistic earnings: investment advisers say there's no risk in investing, earnings are guaranteed and your deposit will be minimal.*

Illegal investment offers can usually be identified by the fact that the scammers are offering *fast, unrealistically high* earnings and no risk. Remember that *risk-free investing simply does not exist, and normal investment returns often range from 5 to 10% per annum.* Investing is a process that takes time and knowledge, so proposals that claim to generate huge returns without your intervention should be viewed with scepticism.

- *Companies offering to invest are usually registered in exotic jurisdictions (Marshall Islands, Vanuatu, Seychelles) and cannot provide investment services in Lithuania. Important to check!*

When you receive any offer to invest, you should first check whether the company offering the investment is authorised to do so. Make sure that it is the company that has the licence, not another company with a similar name. Also make sure that the website of the company offering the investment is not listed as an illegal financial services provider. In addition, it is advisable to check the publicly available information about the company on the internet - you may often find complaints or warnings from other consumers. It is important to know who can provide investment services in your country. On the Bank of Lithuania's website, you can check whether a particular firm has the necessary licence to provide services in Lithuania.

- *High and overwhelming pressure from advisers to increase the investment amount*.

If you have already fallen for the scammers' hook and invested a little, they will not let go of their victim so easily - you will be asked to invest more and more. Be wary of suggestive pressure from advisers to invest quickly and urgently, as if you are "missing out on a great opportunity". Be aware that scammers may initially simulate that the investment will provide a small "investment" return, thus

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encouraging you to transfer more money. The most common offer is to take advantage of a free opportunity to gain more investment leverage by topping up your account with a larger amount. Unfortunately, the scammers become unreachable to recover the funds and all the funds transferred are siphoned off. Don't be swayed by such persuasion - you will only lose even more money if you give in! Never invest again, and report the scammers.

- *The promise is that in the event of a mishap, Mastercard (Visa Chargeback) insurance can be used to recover the money lost, or to help you recover it for a fee.*

The Mastercard (Visa Chargeback) insurance service only reimburses you if you do not receive the goods or services you paid for; investment risk is not covered. For details of the rules applied by a particular payment card organisation, please contact your payment service provider that issued your payment card.

Scammers, who have your contact details and know that you have already lost money, often pose as representatives of law firms and offer to help you recover your lost funds for a brokerage fee of 10-50%. Do not be fooled by such offers, as you will be duped again.

Therefore, if you suspect that you have come into contact with fraudsters, you are advised to stop all contact with them and immediately contact your payment service provider (bank, e-money or other institution) and the law enforcement authorities investigating the fraud.

We hope that this information will help you to prepare yourself in advance for encounters with fraudsters, i.e. to be able to recognise them and to protect yourself from possible negative consequences.

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Self-reflection questions

These questions can serve as prompts for introspection and self-assessment, helping individuals gain insight into their financial habits, values, and aspirations.

1. Have you come across such cases?
2. How resilient do you think you are to financial scams and what you need to do in order to be more resilient?
3. Do you think it is important to know who can provide investment services in your country?
4. To what should you draw your attention in order to spot a scam?

Self-assessment questions

*Read each question carefully and select the best answer from the options provided.**

1. **Resistance to fraud is one of the financial literacy competences that everyone needs to acquire:**
   a) Yes
   b) No
2. **Please choose all types of fraud:**
   a) Data grooming
   b) Investment fraud
   c) Romantic fraud
   d) Money mules
   e) All answers are correct.
3. **Investment fraud is the illegal provision of investment services, i.e. activities where investment services are offered (provided) without a licence issued by the Bank or a supervisory authority.**
   a) Yes
   b) No
4. **What is typical to the illegal offer to invest?**
   a) Promises fast and unrealistic earnings
   b) Companies offering to invest are usually registered in exotic jurisdictions
   c) High and overwhelming pressure from advisers to increase the investment amount
   d) Aggressive advertising using fake success stories of famous people or using well-known brands or institutional names
   e) All answers are correct.
5. **What should you do if you suspect that you have encountered a scam?**
   a) Invest further

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b) Inform the bank about the scam
c) Contact the police
d) Do nothing, wait and see if you can get your money back.

This multiple-choice test can help assess understanding financial journey and the lessons learned from his experiences.

* Correct answers

1.A 2.E 3.A 4.E 5.E

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