

Member Firm Case Study: Lottery and Affinity Scams

In August 2015, John Smith, a financial advisor, received an out-of-the-ordinary distribution request in the amount of \$120,000.00 from a long-time customer, Ms. Jones. As it was a very large withdrawal from a client who did not typically take large withdrawals from her investments, Mr. Smith was immediately uncomfortable with the request. In a conversation with Ms. Jones, Mr. Smith pressed her about the need for such a large withdrawal. Ms. Jones was reluctant and did not want to share why she needed such a large amount of money, but she was adamant that she did not want her daughter and son-in-law to know about the request. As the conversation continued, Ms. Jones finally admitted to Mr. Smith that she was loaning the money to a “friend” and that she would get the money back in a couple of months. The alarm bells were going off in Mr. Smith’s head! Mr. Smith immediately brought his concerns to his sales manager and his compliance department.

During his next conversation with Ms. Jones, Mr. Smith and his supervisor expressed their concerns about Ms. Jones lending money to a “friend.” At this point, Ms. Jones changed her story and stated the money was really for one of her four daughters. The daughter had encountered financial hardship and Ms. Jones wanted to help her daughter without her other children knowing about it. Again, the alarm bells went off, and Mr. Smith’s supervisor brought this information back to the compliance department. Based on the department’s investigation, it did not appear the daughter was in need of funds.

The two phoned Ms. Jones again to ask about her intended use for the funds. Again, she stated that she was going to give the money to her youngest daughter. However, because this version varied from the initial statement that the money was for a “friend,” the compliance department asked Ms. Jones if she had been contacted by anyone asking her for money or promising money or prizes in return for an upfront payment. She stated that she hadn’t been contacted by anyone and again stated the money was for her daughter because she had recently lost her job. Mr. Smith suggested that maybe Ms. Jones should consider giving her daughter a smaller amount, but she was adamant. Mr. Smith suggested that, since she had several children, she should speak to her accountant and secure a promissory note prior to giving the funds to her daughter. Ms. Jones continued to press for an immediate disbursement of the funds. Mr. Smith asked Ms. Jones how she was going to get the money to her daughter: was she going to write a check, wire the funds, use an ACH disbursement, or get a cashier’s check? Ms. Jones stated that she would be writing a check to her daughter.

After the telephone conversation with Mr. Smith, compliance and supervision made one last telephone call to Ms. Jones. During the conversation, Ms. Jones now stated that she was going to give her daughter a cashier’s check. Ms. Jones again confirmed that she was not planning on sending the funds to anyone other than her daughter, and when asked if she was sending the money outside of the country, she emphatically stated “no.” The group again advised Ms. Jones to speak to her children about the “loan” to one daughter to avoid any potential family issues related to the loan of such a large dollar amount.

At this point, compliance and supervision agreed there was no evidence to indicate that Ms. Jones lacked capacity. Ms. Jones' accounts were all individual accounts. Because there was no Power of Attorney or backup contact information on file, the firm had no ability to contact anyone else in Ms. Jones' family to confirm any of the information provided by Ms. Jones. Therefore, based on the conversation with Ms. Jones and having no legal or ethical basis to withhold the disbursement of funds, the funds were released from her investment account to her bank account and she immediately requested a cashier's check.

Several days later, compliance received notification that a wire request had been processed for Ms. Jones, sending \$122,000.00 to a Canadian entity. At the same time, Ms. Jones' daughter came into the branch office because there had been an overdraft in Ms. Jones' joint account with her daughter at another financial institution. It was discovered to be related to the cashier's check issued to Ms. Jones several days earlier. Mr. Smith explained that because Ms. Jones' accounts were individual, no information could be provided to the daughter, but he strongly suggested that she bring Ms. Jones in so they could discuss the matter in detail.

Later that day, Ms. Jones did come in with her daughter and son-in-law, and Mr. Smith explained the situation. It was discovered during this conversation that the daughter did not lose her job. In fact, Ms. Jones had a much more sinister tale to tell.

Ms. Jones stated that she had received a call from Mr. Clark, an attorney in the State of Texas. Mr. Clark told Ms. Jones that her estranged grandson had been involved in an accident and that he had been arrested for drinking and driving. According to Mr. Clark, he had been hired to represent the grandson and he needed money to post bail. Ms. Jones wired \$14,000.00 to Mr. Clark in Texas from her bank account at another institution. Following the initial wire, she received additional telephone calls from Mr. Clark; she sent \$48,000.00 by wire and money order in total. Each time, Mr. Clark asked her not to disclose to anyone their conversations, because the grandson was concerned about what his parents would say. Ms. Jones' daughter and son-in-law sat listening to the story in stunned silence because she had lied so many times when asked about the transactions in her banking and investment accounts.

Mr. Smith then asked Ms. Jones about the \$120,000.00. Ms. Jones stated that Mr. Clark called her and stated that she, along with all his other clients, had been entered into a lottery and that she had won. However, in order to collect her prize, she would need to pay the tax before any prize monies could be disbursed. Once Ms. Jones had the cashier's check, she went to her other banking institution, deposited the check and then attempted to wire the funds to a bank in Canada based on the instructions provided by Mr. Clark in Texas. The bank refused to process the request, in part, based on the other wire activity in the account. Ms. Jones then came back to cancel the cashier's check and she provided Mr. Clark's wire instructions to the teller. The bank teller processed the check cancellation and the \$120,000.00 wire.

Ms. Jones' family was in shock, and her daughter could not believe that she would send so much money to a total stranger. Based on Ms. Jones' admission, the firm immediately placed a reclaim on the funds wire. The outlook was grim. The funds had been wired to a money services company located in Toronto. It was very unlikely that the firm would be successful in reclaiming the funds. At the end of the meeting, Ms. Jones was asked to file a police report with the local

police department and a report with the local field office of the FBI. She was also asked to tell her daughter or Mr. Smith if she was contacted again. She agreed to file the reports and to let someone know if Mr. Clark or anyone else contacted her again for money.

Following the meeting with Ms. Jones' daughter and son-in-law, Ms. Jones consented to grant Power of Attorney to her daughter, and all her financial accounts were restricted to slow down the disbursement of funds.

Several weeks later, compliance was notified that Ms. Jones would receive \$79,000.00 of the \$120,000.00 back from the bank in Canada based on the reclaim. Compliance contacted Mr. Smith to tell him of the funds return. Mr. Smith stated that he had just been notified that Ms. Jones went into another branch and attempted to wire funds in the amount of \$80,000.00 to that same bank in Canada. The instructions were not accepted based on the restrictions on her accounts and her daughter was notified of her attempt to wire funds.

Ms. Jones' daughter, son-in-law and Mr. Smith were stunned by Ms. Jones' attempt after she had been told this was fraud. Why would she ignore the advice of all those closest to her and trust a total stranger?

This is a text book case of how affinity fraud works, and in this case it worked so well that it morphed into a lottery/prize scam. There are many compelling factors that lead intelligent and independent people to fall for these scams – we all want to feel special and unique. The secrecy and exclusivity play into the need to feel special. Once the victim discovers that they have been scammed, they are often so ashamed that they are desperate to recoup the money they have lost and fall further into the trap. With each small success, the fraudsters get bolder, more aggressive and often they have obtained enough personal information about the victim to levy threats against them, leaving the victims feeling helpless, isolated and too ashamed to seek help.

As more and more Americans move into retirement, the allure of all that money will make senior investors an even more enticing target. The financial services industry is well positioned to notice such out of the ordinary activity, or “red flag” activity in a client's account. Whether this activity is large or unusual funds requests, changes in account titling, beneficiary changes, or suspicious changes to POAs, trusts or wills. The sheer number of fraud victims and the staying power of even some very well-known frauds show us that anyone can become a victim. We - as an industry - need to be vigilant and proactive in protecting our customers and stopping these fraud attempts before our clients lose a lifetime of hard work.