

An IPC Brief - Summer 2021

# AFFINITY SCHEMES & ROMANCE SCAMS



## WHAT ARE AFFINITY SCHEMES/FRAUD?

Affinity schemes or fraud are targeted at members of identifiable groups, such as religious, ethnic, or elderly communities. The most common forms of affinity fraud are Ponzi schemes and pyramid schemes. Fraudsters may present themselves as a member of the community, procure the confidence of a trusted authority figure, or do both. Community leaders engaged in an affinity scheme often believe it to be a legitimate enterprise, and their endorsement may be readily accepted by prospective investors in the community. Fraudsters can efficiently pursue fraudulent investment opportunities by exploiting the trust within communities.

## WHY ARE PEOPLE SUSCEPTIBLE?

Affinity schemes exploit the intrinsic feelings of trust in a community. This differs from other forms of investment fraud that may require fraudsters to first *build* trust in potential victims. Fraudsters find affinity schemes attractive for two reasons. First, the close-knit nature of communities is conducive to recruitment. A sense of togetherness and the involvement of trusted community authorities gives the appearance that the investment is trustworthy. Secondly, a community defrauded in an affinity scheme is more likely to address losses internally. This can lead to a loss of civil recourse, lack of public awareness, and fragmentation within the community.

## EXAMPLES OF AFFINITY SCHEMES

Perpetrator	Targeted Community	Figures of Trust Exploited	Amount Defrauded	Amount Recovered
Bernard Madoff	Wealthy Jewish communities and organizations	Elie Wiesel – Nobel Peace Prize winner and Holocaust survivor Steven Spielberg – Film director Fred Wilpon – Former New York Mets owner	\$64.8 billion	\$14.4 billion recovered as of February 2021
Rick Koerber	Utah's Church of Latter-day Saints community	Hartman Rector Jr. – General authority for the Church of LDS	\$100 million	\$45 million restitution ordered
Earl Jones	Terminally ill and/or elderly citizens in Montreal	Defrauded and leveraged his own family and friends – word of mouth	\$51 million	Only noted recovery: \$17 million from the bank used by Jones to run his Ponzi scheme (negligence)

Trust is a crucial ingredient in every community, irrespective of wealth or size. Fraudsters do not discriminate in their exploitation, and it follows that no community is safe from the threat of affinity scams.

Defrauded communities will often find it difficult to recover their losses. Civil proceedings can be complicated, expensive, and time-consuming, and a restitution order does not ensure the return of defrauded funds. Affinity scam masterminds may wire defrauded money overseas, convert it into fixed personal assets, or simply spend most of it before they are caught. Earl Jones declared bankruptcy when he was found guilty of defrauding up to \$51 million. Victims settled for \$17 million with RBC, but have not been able to recover their losses directly from Jones.

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## WHAT TO DO IF YOU ARE NOT SURE / THINK YOU NEED HELP

- If an investment opportunity is exclusive to your community or affinity group, ask why. If it is a seemingly lucrative investment, why is it limited to your community?
- When a community member presents an investment opportunity, request to see their research and do your due diligence. Do they have a prospectus or other disclosure documents? Is this person registered to advise or sell investments? Have you checked?
- Don't be pressured into buying an investment before you've had the opportunity to properly investigate. Do you understand what your money is being invested in and what the risks of getting your money back are?
- Consult someone outside of your group or community. While any outside insight can be helpful, try to get in touch with a community legal clinic, or a professional such as a lawyer or a registered investment advisor.

## ROMANCE SCAMS

Canadians lost over \$18 million to romance scams in 2020.

Romance scams occur when someone uses a fake online identity to gain a person's trust and affection, for instance through social media groups or dating apps. Similar in some ways to affinity fraud, romance scam perpetrators target vulnerable individuals through social media and quickly gain their trust.

After establishing a relationship and endearing themselves to the victim, scammers can request money in several ways. They may suggest a bogus investment opportunity, request help for a personal financial crisis, or resort to extortion if they have obtained sensitive personal information through conversations.

## AVOIDING ROMANCE SCAMS

- Be mindful of what you post online, because scammers may use this information to target you
- Check the person's profile carefully. A new account can be a red flag. Use an online search function to see if the name and photo associated with the account have been used elsewhere.
- Are they always coming up with an excuse for not meeting in person? If you haven't met them in person after talking for some time, this may be cause for suspicion.
- Be wary of sending financial information or inappropriate photos to unverified accounts – they could be used to extort you later.
- Don't send money or provide any financial details to someone you have only communicated with online.

## ADDITIONAL RESOURCES

There are a number of resources that can help you learn more about how you can avoid affinity fraud.

- Securities and Exchange Commission:  
<https://www.sec.gov/investor/pubs/affinity.htm>
- InvestRight:  
<https://www.investright.org/blog/empowered-investing/from-crush-to-crushed-the-reality-of-romance-scams/>
- NASAA:  
<https://www.nasaa.org/7157/affinity-fraud-beware-of-swindlers-who-claim-loyalty-to-your-group/>