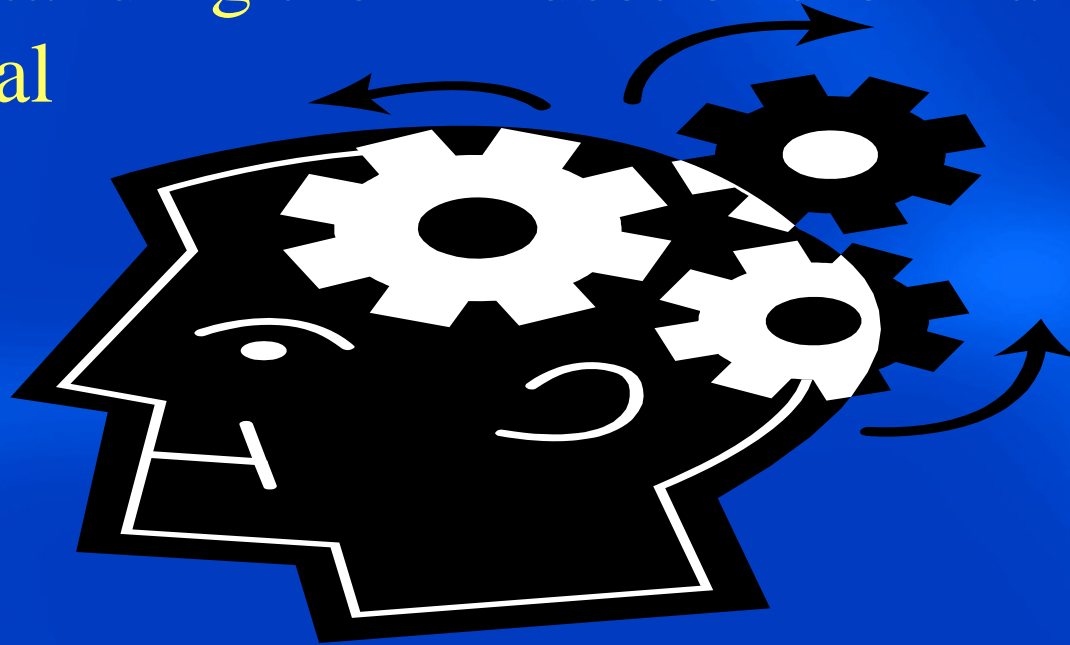


# SPOTTING THE TELL TALE SIGNS

How to avoid becoming a victim by  
understanding the mindset of the financial  
criminal



# RUSSELL KING – The Trillion Dollar Con Man – April 2011



- Took control of half the shares of a London investment bank without paying a thing
- Deceived former England football manager, Spy master and North Korean government

# HOW DID HE DO IT?

- Falsely claimed that he was managing billions of dollars for the Bahraini royal family
- Flamboyant and convincing
- Previously imprisoned in 1991 for insurance fraud
- Victims failed to carry out background checks!

13<sup>TH</sup> JANUARY 2011 – TERRY  
FREEMAN CONVICTED OF  
£14 MILLION PONZI SCHEME



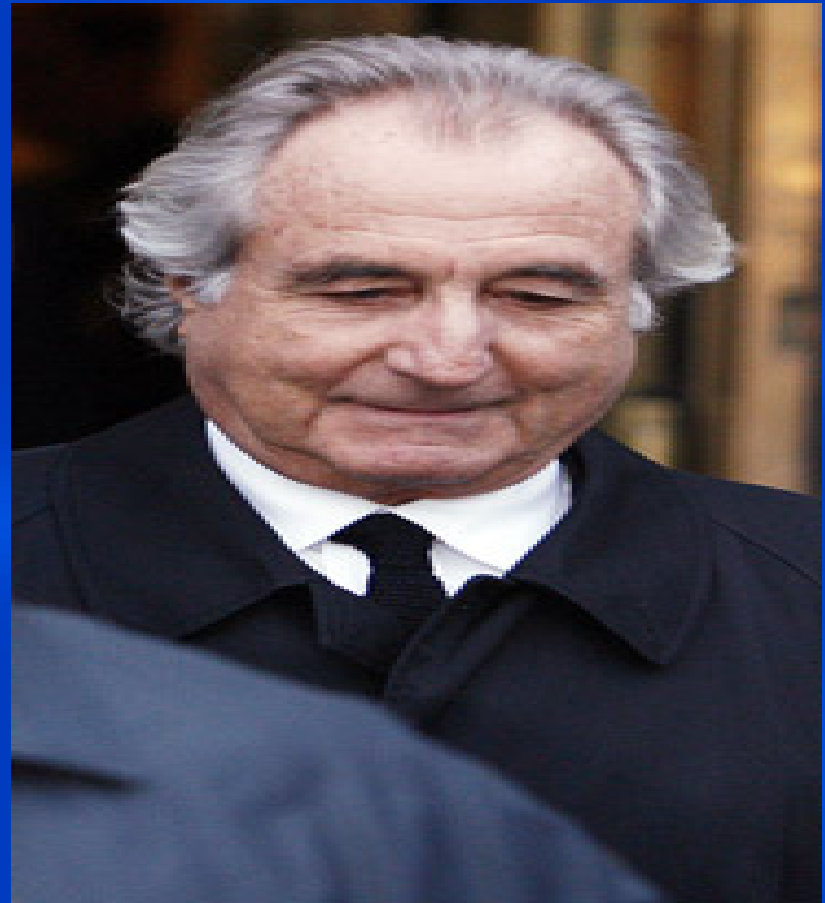
# WHAT DID HE DO?

- Through his company GFX Capital offered “no risk and high return” foreign exchange trades
- Nicknamed “Mini Madoff” – duped 700 investors
- Fraud unwound after he bought into Lehman Brothers
- When half the fund lost, he announced profits had jumped by 12%!

# COULD INVESTORS HAVE KNOWN?

- Persuasive, flamboyant and convincing
- Promised high return without risk!
- Had previously been convicted and imprisoned in 1997 under the name of Terence Sparks for another financial scam and been disqualified as a director
- Received 8 year sentence

# PONZI AND MADOFF



# Nick Leeson and Ken Lay



# SOME COMMON FACTORS

- Intelligent
- In positions of trust
- Persuasive
- Emotional problems
- Lack of moral compass
- Opportunity
- No effective controls

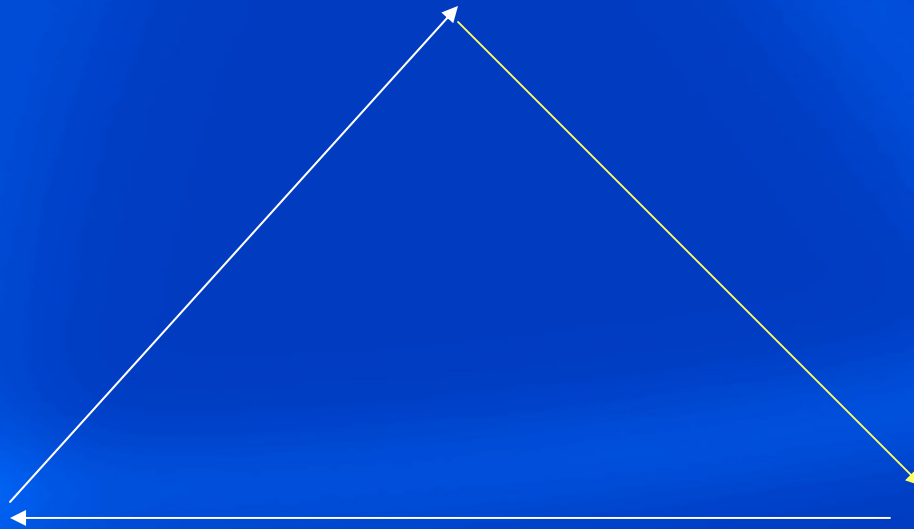
# FOR FRAUD TO TAKE PLACE

- A supply of motivated offenders
- Availability of suitable targets
- Absence of effective controls



# THE FRAUD TRIANGLE

MOTIVE



OPPORTUNITY

RATIONALISATION

# FRAUDSTERS MOTIVATION

- NEED AND GREED
- BELIEF THEY WILL NOT BE CAUGHT
- SURVIVAL e.g. Customs Officers/ Police
- BONUS TARGETS, SALARY, AND ADVANCEMENT
- OPPORTUNISM
- DEBT –”Creative measures” to rescue a situation

# ASPECTS OF MOTIVATION

- Can include:
- Ego/Power – strong motivator for some fraudsters
- “For myself I love to make people do what I want them to. I love command. I love to rule people that’s why I am a con artist”

# ASPECTS OF MOTIVATION

- Also:
- DELIGHT AND GRATIFICATION FROM THE ACT – rather than simply the outcome – knowledge that they are fooling the world and demonstrating their superiority to others
- “Half of being a con man is the challenge. When I score, I get more kick out of that than anything; to score is the biggest kick of my whole life”

# RATIONALISATION – A Psychological aspect of fraud

Motivation drives,  
rationalisation  
nullifies moral  
objections



# RATIONALISATION TECHNIQUES

- Against large companies “They can afford it”
- Against individuals especially those who are enticed into illegal acts “They had it coming”
- Tax fraud, insurance fraud, expenses  
“Everyone does it” “You are a fool not to”

# OCCASIONAL AND HABITUAL FRAUDSTERS

- Two ends of the Fraud spectrum
- The “Occasional fraudster” responds to social pressure – commercial white lie to obtain urgently needed finance
- Habitual fraudster – very different animal



# HABITUAL FRAUDSTERS

- Predatory in nature- seeks out victims
- Include top flight con men of bogus investments etc
- Very different psychological make up
- Behaviour variously described as Psychopathic, or Anti Social Personality disorder

# CHARACTERISTICS

- Often charming persuasive and articulate
- But this masks ruthlessness, lack of affection and conscience
- Usually impulsive, amoral, uncontrolled and detached from normal relationships
- Attracted to risk taking, thrill seeking and gambling
- Show no remorse but blame victims
- Minimise consequences,/show arrogant indifference
- See themselves as victims

# “CLEVER BUT FOOLISH”

- Very convincing liars usually compulsive liars
- Will lie repeatedly but when substance is analysed, tested and found to be untrue will try and embellish with further lies
- “Why do they not learn?”
- Psychopaths notoriously resistant to treatment

# THE MINDSET OF THE PSYCOPATHIC CON MAN

- In an interview , one of our psychopaths, a con artist said candidly
- ”When I’m on the job the first thing I do is size you up. I look for an angle, an edge, figure out what you need and give it to you. Then its payback time with interest. I tighten the screws”
- (Without Conscience – The disturbing world of the psychopaths among us- Dr R Hare 1993)

# THE MINDSET OF THE PSYCOPATHIC CON MAN

- “He lied endlessly, lazily, about everything and it disturbed him not a whit, whenever I pointed out something in his file that contradicted one of his lies he would simply change the subject and spin off in a different direction”
- (Without Conscience – The disturbing world of the Psychopaths among us -Dr R Hare 1993)

# KENNETH WAYNE McLEOD

“All around nice guy”



# McLEOD'S FRAUD

- Few warning signs -targeted like minded people from government and law enforcement!
- Chose victims carefully – men aged 55-64
- Set up “special fund” for “exclusive clientele”
- Fraud exposed in economic downturn
- Committed suicide in June 2010 after confessing

# CHARACTERISTICS FRAUDSTERS MAY EXHIBIT

Instant gratification (greed)

Unprincipled

Manipulative

Controlling

Revenge mentality

Drugs/alcohol dependence

Sex problems/gambling

Life in compartments



# ADDITIONAL CHARACTERISTICS

External dishonesty

Non conformist

Technically arrogant

Risk taker

Envious /resentful

Criminal associates/record

Shortage of cash

Doesn't answer questions



# RISK INDICATORS - EMPLOYEES

Significant changes in  
behaviour

Secret phone  
calls/meetings

Absences from work

Relationship problems

Physical deterioration

Emotional instability



# THE VICTIMS PERSPECTIVE

- Not all victims are lacking in intelligence!
- Prof Stephen Greenspan – psychologist and specialist in gullibility
- Lost half his pension in Madoff!



# ASPECTS OF GULLIBILITY

- Situation – religious affinity philanthropy, modest returns, family links, trust
- Cognition – backing the judgment of other investors, belief that it was too good a thing
- Personality – trust and impulsive decision making
- Emotion- excitement and greed

# SPOTTING THE TELL TALE SIGNS

- Ask the right questions at the right time
- Carry out checks especially with independent third – use internet intelligence
- Exercise common sense – if it is too good to be true it probably is!

# ONE FINAL CASE

## JAMIE LAKE

- Stole \$600,000+ from 33 people using a computer , a bit of knowledge and plenty of trust
- Clients wrote cheques directly to him, didn't verify independently
- Likeable, smooth operator and fast talker
- Clients purchased annuities that Lake faked

# LAKE'S OBSERVATIONS

- “ People break one golden rule – they don’t check the facts and they don’t look at the paperwork they are given”
- “ My clients would have known I had not purchased their annuity if they had called the insurance company that issued it to verify the purchase”

# LEARNING FROM FRAUDSTERS

- Interviews in prisons – why and how
- Capitalising on fraud – Frank Abagnale, Nick Leeson, Humberto Aguilar
- What deters?
- “No magic bullet”
- Create more awareness
- Make it less easy – corporate culture/strategy/ risk assessment/controls



PETER LOWE, ICC COMMERCIAL CRIME SERVICES

[plowe@icc-ccs.org](mailto:plowe@icc-ccs.org)

[www.icc-ccs.org](http://www.icc-ccs.org)