



REPORT

Preventing Investment Fraud

31 October 2024



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Foreword

In December 2023, the Government gave Finansinspektionen (FI) an assignment to map and analyse the need for additional measures to make it more difficult for criminals to perpetrate investment fraud on consumers and businesses in Sweden.

The assignment also includes proposing potential measures, with a special focus on measures FI or financial firms under supervision could implement.

As part of this assignment, we have collected input from four external actors, including the Swedish Police (National Fraud Centre), that in various ways come into contact with investment fraud.

The report starts with a description of investment fraud and outlines the differences and similarities to other types of financial fraud. It then accounts for what FI is doing today to prevent investment fraud. In the final sections of the report, we describe the measures that FI and financial institutions should take to further prevent investment fraud.

Stockholm 31 October 2024

Daniel Barr
Director General

Summary

In Sweden, different types of investment fraud have been occurring for many years, but in recent years the number of victims has been increasing. In 2023, the Swedish Police received almost 4,000 reports of this type of crime, which is an increase of more than 50 per cent compared to the figures from 2022. Fraudsters have benefited from the increased digitalisation of society. The wide range of digital channels now available has created new opportunities for fraudsters to spread false investment offers to consumers and come into contact with a lot of people.

Illicit gains from investment fraud are much higher than for other types of fraud. More than 30 per cent of the criminal proceeds obtained through fraud have come from investment fraud despite this type of fraud representing a rather small percentage of the total number of reported frauds.

Investment fraud is when the fraudster presents a made-up profitable investment. For example, fraudsters often offer online trading in CFDs (a type of leveraged certificate) that use shares or cryptoassets as the underlying asset. However, in an investment fraud, there is no actual investment or firm; everything from the company name, corporate ID number, and address to the authorisation to conduct business is made up. This also means that we cannot apply to investment fraud the tools we normally use in our supervision of firms that have received authorisation to conduct business on the financial market.

Instead, we work with preventive measures to, among other things, spread information that will prevent consumers and businesses from being tricked into sending the fraudsters money. This preventive information is available via FI's website and social media, FI's warning list, training courses that are part of FI's financial education activities, and the Swedish Consumers' Banking and Finance Bureau and the Swedish Consumer Agency.

However, additional measures are necessary to prevent investment fraud. This includes measures that would both strengthen the consumer's own ability to protect themselves and make things harder for the fraudsters throughout the entire perpetration of an investment fraud. More resources would enable FI to do more in the form of preventive work, for example through informational campaigns and collaboration with the banks regarding FI's Warning List.

Financial firms could also increase their initiatives with more preventive information for customers and strengthen their consumer protection against investment fraud.

Starting points

Objective and limitations of this report

The assignment this report fulfils aims to provide a status update on investment fraud today and propose measures that need to be taken.

The report is limited in that it proposes measures that FI and firms under our supervision can take. It should also be noted that FI does not have a specific assignment related to investment fraud, but rather that we work to prevent investment fraud as part of our assignment to promote a high level of consumer protection on the financial market.

As an additional part of the assignment for this report, FI also collected input from four external actors – Swedish Police (National Fraud Centre), Swedish Consumer Agency, Swedish Bankers' Association, and Swedish Securities Markets Association – on what more can be done to prevent investment fraud. These actors were chosen because in their activities they come into contact with investment fraud and those who have been impacted by investment fraud in various ways.

Perpetration of an investment fraud

As part of an investment fraud, the fraudster presents a made-up profitable investment. Fraudsters often offer online trading in CFDs that use shares or cryptoassets as the underlying asset. In an investment fraud, there is no actual investment or company; everything from the business name, corporate ID number, and address to the authorisation to conduct business is made up. This means, for example, that it is not possible to determine where the fraudster is located or where the made-up company is domiciled. Investment fraud should not be confused with bad advice, which is when money is lost in investments by real firms and assets subject to FI's supervision.

In investment fraud, the person who chooses to invest normally receives log-in information to the fraudster's website so they can watch the alleged investment grow. This creates trust between the victim and the fraudster for the promises that the fraudster initially made. In other words, the fraudster, with the aim of making a profit, contacts a person and convinces them to do things by taking advantage of their trust, so-called social manipulation. Consumers are thus tricked into repeatedly investing money in something that they believe is safe and profitable. Sometimes, the fraudster also successfully tricks the victim into paying made-up fees, which might be called taxes, bank fees, insurance premiums or commissions.

What is investment fraud?

It is important to understand that investment fraud is not merely the transaction itself between the victim and the fraudster; it also consists of a number of preparatory events before the transaction takes place. For example, the fraudster often has first created and registered a website and built the website so as to appear as a serious company. There is also often some form of advertisement or a post on social media. Then comes the first contact between the fraudster and the consumer who is interested in investing. This is also when the social manipulation starts that ultimately leads to the victim carrying out a bank transaction with the fraudster in the belief that there is a real investment.

Investment fraud has been occurring in Sweden for many years, but recently it has been impacting a growing number of consumers. In 2023, the Swedish Police received almost 4,000 reports of this type of crime, which is an increase of more than 50 per cent compared to the figures from 2022.¹ Fraudsters have benefited from the increased digitalisation of society. The wide range of digital channels now available has created new opportunities for fraudsters to spread false investment offers to consumers and find ways to contact consumers. It has also become easy for fraudsters to come into contact with a lot of people.

The illicit gains are noteworthy

What makes investment fraud unique is the size of the illicit gains: in 2023, more than 30 per cent of the illicit gains from fraud were estimated to come from investment fraud, corresponding to approximately SEK 2.3 billion, despite the number of reported investment frauds representing a rather small percentage of the total number of reported frauds.

As mentioned above, investment fraud belongs to a type of fraud that uses social manipulation. This also includes vishing, which is significantly more prevalent but associated with lower illicit gains. Vishing is when the perpetrator presents themselves over the telephone as working for a bank, a government authority, or another key actor in society. The person who answers the call is manipulated into providing log-in information or encouraged to use their Bank ID to transfer money to another account.

Another feature of investment fraud is that the payments from Swedish consumers who fall victim to the fraud are often sent outside of Sweden's borders.² Often, a foreign payment is made directly to the fraudster, but the money also may be transferred via the customer's own account to a foreign bank, payment institution

¹ The Swedish National Council for Crime Prevention's database of reported crimes, <https://bra.se/statistik/kriminalstatistik/anmalda-brott.html>

² <https://polisen.se/siteassets/dokument/finanspolisen/rapporter/bedragerier-och-penningvatt.pdf>

or e-money institution that offers fully digital services similar to those of a bank and often enable fast payment solutions and rapid processes for becoming a customer.

It is also common for victims to exchange money for cryptoassets at the behest of the fraudster and then transfer these cryptoassets to the fraudster's cryptowallet.

Particular dangers for consumers

Depending on the structure of the investment fraud, it can take a long time before the fraud is discovered. This is primarily because consumers in many cases are convinced that they are interacting with serious actors. Because the fraudster often tricks consumers into performing the act of transferring money to the alleged investment, consumers currently must bear the majority of the losses after an investment fraud is perpetrated (so-called authorised transaction). The large losses resulting from these frauds are creating in particular a greater need for stronger consumer protection with regard to investment fraud.

Many consumers impacted by investment fraud are also reporting that their relationship with their bank, including BankID, had been terminated when it became apparent that they had fallen victim to investment fraud with the justification that they had contributed to money laundering. Having access to a payment account is often a prerequisite for handling day-to-day needs. The problems the victimised consumer thus experiences extend beyond the investment fraud. FI takes the position that it is important for banks to ensure that consumers' access to payment accounts is not limited more than necessary at the same time as the banks work to prevent fraud.

FI's work to prevent investment fraud

Supervision work

At FI, we supervise firms that have received authorisation from us to conduct business on the financial market, including banks and payment service providers. Our assignment is to supervise the financial sector and ensure that the firms are following laws and rules to safeguard stability, a high level of confidence, and strong consumer protection. A well-functioning financial system is a prerequisite for a functioning economy. FI's tools in this work include the assessment of firms' applications for authorisation to conduct a certain business and thereafter following up on this business through ongoing supervision.

However, the tools we normally use in our supervision are not applicable to investment fraud since the fraudsters hide behind made-up business names and use made-up contact details and corporate ID numbers. Sanctions are not effective when the company does not exist.

Instead, FI works with preventive measures that aim to, among other things, inform individual consumers about being more vigilant and teach them to recognize a fraud attempt. When it comes to investigating the fraud itself, this falls under the purview of the Swedish Police, which is a crime investigation authority. However, FI expects the firms under its supervision to do what they can to protect themselves from being used for criminal purposes such as fraud.

Our preventive work

On FI's website and in social media, we provide consumers with tips on how they can avoid being tricked and what they can do if they have fallen victim to fraud. This information is also available from the Swedish Consumers' Banking and Finance Bureau and the Swedish Consumer Agency. FI also receives daily questions via telephone and email about investment fraud, both from victims and people who are unsure but have not yet lost any money. FI also collaborates with other authorities, for example the Swedish Police and the Swedish Consumer Agency.

FI warns about fraudulent companies

At FI, we also compile a warning list where we warn about dishonest companies (and websites). This is another way to work preventively. FI lists companies offering financial services or products to Swedish consumers and investors without the necessary authorisation for conducting business either in Sweden or outside of Sweden. These companies often offer investments that later prove to be worthless.

The majority of the companies included in this list are due to events outside of Sweden; FI receives the information from foreign authorities and makes the decision to publish it. The warning list is important, but it is difficult to keep the list up to date. Companies in some cases have closed their websites after being added to the list, but there is also a risk that they will soon show up again and continue their activities under a new name.

How to avoid fraud – tips and campaigns

We publish information on FI's website at least once a quarter about new trends and tips for what consumers should think about to avoid falling victim to investment fraud. It is possible to subscribe to these publications, and we thereby also send this information to the media. As a result, we receive regular requests for interviews and to participate as guests on news programs, which provides additional opportunities to reach more people with this information.

As part of FI's work with financial education, we have had a particularly strong focus on targeting seniors with information about fraud and internet safety. For example, as part of our *Trygga din ekonomi på äldre dar* (Secure Your Finances during the Golden Years) project, we trained professionals who interact with seniors as part of their work³, but we also developed targeted educational initiatives in collaboration with senior associations.⁴

At the end of 2023, as yet another part of its work to prevent investment fraud, FI launched an extensive advertising campaign in social media. Here, the aim was to inform and educate a broader target group about the methods that fraudsters use. The campaign generated very high engagement and resulted in, for example, 8.2 million exposures distributed among 1.3 users. Many of the people the campaign reached then continued on to fi.se to learn more or watch the informational video that was part of the campaign. The campaign also garnered considerable traction within the media.

³ These professionals refer to participants in the network's training courses, for example, who interact in their work with people who are in financially vulnerable or work with pension-related matters at a workplace. The objective is for the participants to train or inform others, thereby spreading the knowledge.

⁴ <https://www.fi.se/sv/publicerat/rapporter/rapporter/2024/finansuell-folkbildning-fortsatt-viktigt-for-att-starka-konsumenter/>

Proposed measures

We present below the feedback and proposals from FI and the external actors (Swedish Police, Swedish Consumer Agency, Swedish Bankers' Association and Swedish Securities Markets Association) on measures that FI or financial firms under supervision could take to make it more difficult for criminals to perpetrate investment fraud on consumers and businesses in Sweden.

The report is limited in that it proposes measures that FI and firms under supervision can take. However, it is important to remember that several other actors provide services that fraudsters use to perpetrate investment fraud. This includes, for example, firms that make it possible for fraudsters to advertise in digital channels, firms providing the fraudsters' websites and telephone numbers, and firms providing software that makes it possible for fraudsters to connect remotely to the victim's computer. In its input to FI, the Swedish Police emphasise the importance of stopping investment fraud as early as possible as it is being perpetrated.

The Swedish Consumer Agency notes that Regulation (EU) 2017/2394 on cooperation between national authorities responsible for the enforcement of consumer protection laws allows for the possibility of an expanded mandate for supervisory authorities with regard to intervention against dishonest business methods/fraudulent companies, for example enabling closure of websites or other measures in accordance with Article 9(4).

Finansinspektionen's preventive work

As described in the report, FI is working in different ways to prevent investment fraud. This work will continue. It is possible to take additional measures in a number of different areas. These areas are accounted for below.

Informational campaigns help raise the knowledge level

FI is already currently distributing information to society through digital channels. We can see from our campaigns that consumers are very interested in learning more about investment fraud. This strong interest combined with a high degree of emotional engagement creates conditions for consumers to absorb the information in the educational initiatives, thereby creating a preventive effect. We note that more targeted educational initiatives in this area could have a positive effect on consumer protection. The input from several external actors also highlighted that informational campaigns are important in the fight against fraud. Increasing the knowledge about how fraud is carried out and the methods the fraudsters use improves consumers' possibilities for protecting themselves.

Collaborations contribute to better protection

FI already collaborates with the Swedish banks; for example, we inform them if we become aware of account numbers that are suspected to have been used for investment fraud. It would be valuable to investigate how this work can be improved and potentially increased both in Sweden and in the international collaboration with other supervisory authorities.

The Swedish Police sees a possibility for FI to compile additional information from victimised consumers who contact us. These consumers have often used a foreign bank, and this information would enable us to better map if one bank is used more than others and share this information with our contacts at foreign supervisory authorities.

Several of the actors, including the Swedish Consumer Agency, highlight the importance of well-functioning collaboration between authorities both in Sweden and beyond Sweden's borders. There is also a request for authorities to provide victims with clearer information about to whom they can turn as well as advisory information.

The Swedish Bankers' Association would like to facilitate collaborations and information sharing internationally for both financial institutions and crime investigation authorities. The aim is to create better conditions for protecting both consumers and businesses.

FI issues warnings for companies without authorisation

Today, we issue warnings about thousands of fraudulent business names and websites every year through our warning list. It is important that this warning list is available for both firms under supervision and consumers who want to research a company. Its use will probably increase if the information about business names and websites involved with investment fraud is as updated as possible.

We can evaluate how our warning list is used and thus investigate if it is possible to expand its reach, for example by making the list easier to download and publishing updates with minimal lags.

Several external actors also confirm that our warning list fills a key function, and they also note that it would be more useful if it was updated faster, easier to navigate, and marketed better. Old and non-functional warnings also need to be removed faster. Several of the actors also mention that the information in the warnings can be difficult to interpret, and there has also been a request for an API⁵ to download the list.

⁵ Application Program Interface, used to transfer data from one software to another.

Financial firms

Time of transaction and functionality limitations

In order to perpetrate investment fraud, at some point a payment must be made. This requires the involvement of banks or payment service providers. FI published a report earlier this year about how it conducts supervision of the payment service providers' application of the provisions to prevent fraud.⁶ FI notes in this report that financial firms do a lot to prevent payment services that they provide from being used for criminal intent. Despite these efforts, the problem is not only persisting but also growing. FI takes the position that banks and payment service providers need to strengthen their work to prevent fraud, for example by developing products and services with stricter security that are better at protecting customers.

The Swedish Police highlights the time of the transaction as an important point in the perpetration of an investment fraud but also notes that a number of events have often occurred before the transaction itself is carried out. In order to be able to stop transactions to fraudulent companies, the Swedish Police suggest, for example, creating more of link between a bank customer's due diligence questions and their actual behaviour. Thus, for example, a customer would not be able to make a payment to another country if they previously stated that they normally do not make payments to foreign countries.

In May 2024, the Swedish Bankers' Association and the banks presented a joint action plan to increase security and strengthen customer protection against fraud.⁷ FI welcomes this plan. The actions include developing systems to monitor transactions and adapting the range of products.

The Swedish Bankers' Association's proposal could help prevent investment fraud. FI is aware of several initiatives that started in 2024, for example requirements on activating the foreign payments service before a foreign payment can be executed and the possibility for a customer to add a requirement that payments above a certain amount must be approved by two people.

The European Commission's proposal for a new payment service regulation also contains several provisions that would entail increased requirements on banks and other payment service providers, in part to prevent fraud at the time of payment. One example is that the consumer must be informed before a transaction is executed if the payment recipient's name and unique identifier (for example,

⁶ See FI's report, *Motverkande av bedrägerier i betaltjänster*, 2024. An English summary is available on FI's website. <https://www.fi.se/sv/publicerat/rapporter/rapporter/2024/mer-behover-goras-for-att-skydda-konsumenter-fran-bedragerier/>

⁷ <https://www.swedishbankers.se/om-oss/aktuellt/aktuellt-fraan-bankfoereningen/bankerna-staerkerkundskyddet-mot-bedaergerier-ytterligare/>

IBAN) do not match. It is also important that the measures are not only carried out in Sweden, particularly given the international aspect of investment fraud that is described in the report.

Preventive work and information

It is important that banks continue to warn about investment fraud and refer to FI, the warning list, and other authorities in a clear manner so that individuals caught up in an ongoing fraud can get the best help possible to understand that they are being exposed to a fraud attempt.

The input from external actors raised the problem with social manipulation and the difficulty at the actual time of the transaction to get the victim to understand that they are involved in a fraud. Even if the bank clearly communicates with the account holder that there are strong indications of fraud associated with the transaction and refuses to execute the payment, the account holder could seek out new payment methods to complete the payment. The importance of preventive information is therefore brought up by several actors, who mention, among other things, the campaign *Svårlurad* (Hard to Trick), which gained considerable reach and aimed to increase awareness regarding social manipulation. Even general information about fraud needs to be spread more. Customers are not knowledgeable about the different types of fraud that exist. Discussions are being held about broadening this campaign, and the focus could be, for example, investment fraud.

The Swedish Bankers' Association is clear that fraudsters adapt to preventive measures and quickly change their working methods to get around countermeasures. The work to prevent fraud is thus ongoing and never ends; it needs continuous progression.

Conclusions

Investment fraud is a growing problem, and it can have dire consequences for individuals. To reverse the trend and prevent more people from falling victim to investment fraud, additional measures are required. This includes both measures to strengthen consumers' own ability to protect themselves and what firms under supervision can do to make things harder for the fraudsters.

For FI, its measures are related to different types of preventive work and information targeting consumers. Additional resources would mean that FI could do more in a number of different areas that are presented in this report.

For financial firms, additional measures would be to make transactions with fraudsters more difficult and to arrange informational campaigns.

It is also important to remember that an investment fraud consists of many steps, which means that many different parties need to be included in and contribute to various methods for preventing such fraud. In this respect, investment fraud is a problem for society as a whole and requires action from several parts of society.