


Affinity is only skin deep

INSIDIOUS FRAUD OF FAMILIARITY

Fraudsters know no boundaries, even when it comes to their supposed friends and family. Affinity fraud is a particularly insidious crime in which fraudsters use their similar characteristics to others to gain trust – ultimately exploiting that trust for their own financial gain.





ambodian fraud victims said that fellow immigrant Seng Tan arrived at their homes in a black Mercedes S500 to outline investment opportunities. With her Canadian-Cambodian citizen husband, James Bunchan, Tan impressed many of her uneducated fellow Cambodians with appearances of wealth and the way she dressed. Like them, Tan had fled the horrors of the Pol Pot regime. She knelt in their temple to pray, and they cried and laughed together over their shared experiences. The immigrant families, who didn't have enough cash to invest, collected money from relatives, cashed out retirement accounts and took out equity loans on their homes. Fraud victim Tai Kim said she thought "God sent her here to help our community." But instead of achieving their dreams, the victims lost nearly \$30 million in a Ponzi scheme. (See "Alleged Pyramid Scheme Offered Kinship, a Dream" by Yvonne Abraham, Feb. 19, <http://tinyurl.com/d4bjn9a>, available for a fee.)

Bunchan and Tan used their ethnic heritage to infiltrate a Cambodian community by speaking its language, professed their religious piety as the group did; exploited the group's cultural propensity of maintaining a distant relationship with outsiders who could, therefore, not have knowledge of the fraudulent investments; and used the group's leaders to legitimize their reputation and their alleged investments.

Bunchan and Tan were found guilty of fraud in 2007. Tan was sentenced to 20 years in federal prison. Bunchan also was convicted in a murder-for-hire plot in which he had discussed targeting 12 of their Ponzi scheme victims and a Massachusetts federal prosecutor. He was sentenced to a combined 60 years in federal prison. (See "Appeals Court Upholds 20-Year Prison Sentence of Seng Tan," PatrickPretty.com, March 27, <http://tinyurl.com/8eo373u>.)

Building fraud through connections

Affinity fraud is a financial scheme practice that relies on building trust with victims based on shared affiliations and characteristics — such as age, race, religion, ethnicity or professional designations — for financial gain.

We'll discuss the concept of affinity fraud, the ease with which Bunchan and Tan perpetrated it in the Cambodian case and the difficulty fraud victims have in reconciling the "special trust" they believe they shared with predatory white-collar criminals.

We also examine affinity fraud offenders' behavioral characteristics and psychological techniques of persuasion to show how they overcome victim skepticism. The concept of *projection bias* supports our position that building trust creates a synergistic effect that makes it easier for fraud to occur. Finally, we outline anti-fraud measures to minimize the risk of affinity fraud.

Stealing from those closest to you

Affinity refers to a sense of "kinship" or likeness based on characteristics common to a specific group, such as racial, religious and ethnic communities, the elderly or professional groups. The offenders who promote affinity scams frequently are — or pretend to be — members of that group. A common strategy is to enlist respected community or religious leaders from within the group to spread the word about the scheme by convincing the leaders that a fraudulent investment is legitimate and worthy of advancing the social and economic interests of the group.

Once the fraudster has convinced the leader, the fraudster uses the leader as a pawn to convince his followers to invest with him or her because the

offender is assumed to be trustworthy. The inherent trust individuals inure to others who belong to the same group can be construed as a weakness to be exploited by those who may share those traits but have ulterior motives.

Many people don't know how to thoroughly research an investment and its salesperson. Affinity fraud poses dangers because it undercuts the usual warnings about investment schemes promoted by strangers. In these cases, fraudulent investments may come to one's attention as the result of a contact from a friend, colleague or someone who inspires a bond of trust. "You can trust me," says the scammer, "because I'm like you. We share the same background and interests. And I can help you make money." The normal cautious skepticism is replaced by social banter.

As another fraud victim defrauded of \$35,000 indicated about her experience, "He told me that he had been guided by the spirit to people who are struggling financially, and he had the revelation that he should come to me and he would be my financial rescue. ... [T]hese people who target and are doing affinity fraud, they know what they're doing, and they're good at it, and they just work you until you have their trust." (See "The optics of fraud," by Frank S. Perri and Richard G. Brody, *Journal of Financial Crime*, volume 19, issue 3, <http://tinyurl.com/95xxa5s>.)

Defrauding investors in church-based settings is particularly effective because con artists can reach an entire congregation. However, perpetrators also use Internet sites, ethnically affiliated media and conferences or other social gatherings to gain access.

Securities regulators at all levels have expressed concern about the dramatic growth of affinity fraud; since 1998, affinity fraud has been ranked one of the top five investment schemes. (See

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"Top Investor Traps," by NASAA, 2011, <http://tinyurl.com/cgadch9>.)

One nationwide survey found that between 1984 and 1989, affinity fraudsters cheated 13,000 investors out of \$450 million, and from 1998 to 2001, more than 90,000 investors in 28 states lost more than \$2.2 billion. (See "The Thin Line Between Love and Hate: Why Affinity-Based Securities and Investment Fraud Constitutes a Hate Crime," by Lisa M. Fairfax, <http://tinyurl.com/7ffbqr9>.)

In all, affinity-fraud losses in America are estimated at \$50 billion annually. (See "Fleecing the flock," *The Economist*, Jan. 28, <http://tinyurl.com/7perxcv>.) Recently, Utah citizens who belong to faith-based organizations have been defrauded of more than \$1.5 billion. (See "Bills would crack down on affinity fraud in Utah," by Emiley Morgan, Jan. 31, 2011, <http://tinyurl.com/7rq97x2>.)

Cambodian affinity fraud dissected

Many affinity scams involve Ponzi or pyramid schemes, in which new investor money is used to make payments to earlier investors to give the false illusion that the investment is successful.

Tan told the collective group of victims they would need to pay \$26,347.86 into a company called Worldwide Marketing Direct Selling Inc., a vitamin and beauty-aid supplier. For that investment, the company would send them a \$2,497 bonus, then \$300 a month for life as well as money for their children. For every five investors they recruited, the payments would jump again. Tan targeted longstanding members of the community because she knew that once they bought into the investment scheme, other Cambodians would follow. About 400 victims signed over loans totaling about \$30 million to Bunchan and Tan.

Some of the members of the Cambodian community asked Tan why only Cambodians were investing. "We have to help all the Cambodian people first, before we go to another culture," she said.

Bunchan, her husband, gave emotional speeches to convince the immigrants to invest. He would cry when he recalled how his people had suffered under the Pol Pot regime and then say it was their turn to prosper. (After authorities had nabbed the fraudsters, the fraud victims recalled how they had believed the couple, especially because they seemed to understand the community's suffering prior to relocating to the U.S.)

The Cambodian community began receiving checks each month, just as Tan and Bunchan had promised. However, after five years, the payments stopped,



the Ponzi scheme collapsed, and the community lost all of its investments. The fraud and huge losses even took the community's leaders by surprise. "The Cambodian community is very close-knit and very private," said Vong Ros, director of the Cambodian Mutual Assistance Association, in Lowell, Mass. Tan "knows the Cambodian population don't trust anybody but their family and friends. That is why the wider non-Cambodian community didn't know about it."

The scam first came to light when one of the investors told a co-worker at his workplace about the community's losses. Then the co-worker called the FBI.

Overcoming affinity fraud

Affinity fraud scams commonly last significantly longer than other frauds because when the trust is established investors aren't likely to fully investigate the scam and often don't believe they've been defrauded. Even when they do believe, they're not likely to report the fraud outside of the group. (See "Madoff and Affinity Fraud" posted by Lisa Fairfax, March 24, 2010, <http://tinyurl.com/9mtm8r4>.)

Church-based affinity fraud poses special problems for securities regulators because victims are even more reluctant to inform investigators they've been scammed. This can be attributed to:

- A negative impression of law enforcement.
- A desire to resolve the problem within a group.
- Embarrassment.
- A desire to not have a member of their organization prosecuted.
- The belief that alerting the authorities may stop the perpetrator from having a "change of heart" and returning the money (although often there's no money left to return).
- The desire of the defrauded group to have the culprit "repent."
- The disbelief that someone from their own congregation would steal from them, especially when the perpetrators cloaked themselves in a religious value system to convince others that they were sent by a higher authority to make others wealthy.

In reality, these perpetrators never shared the good will and belief systems of the organization's membership to begin with. (See "In God We Trust: The Cultural and Social Impact of Affinity Fraud In the African-American Church," by David

E. Austin in the Fall 2004 issue of *The University of Maryland Law Journal of Race, Religion, Gender and Class*, <http://tinyurl.com/77c9udw>.)

The emotional bonds the fraudster builds can blind victims to the truth. As Harry Markopolos, CFE, whistleblower in the Bernard Madoff securities fraud case, said, “Nobody thinks one of their own is going to cheat them, not when they can cheat so many others.” (See “Chasing Madoff” by Dick Carozza, *Fraud Magazine*, May/June 2009, <http://tinyurl.com/7w242vw>.)

Crooks can perpetuate affinity fraud by:

- Quoting verses from religious texts.
- Incorporating some element of their charitable giving by telling investors that a portion of their investment will allow them to “give back” to their communities.
- Convincing victims that if they cooperate with a government investigation into their alleged scams, they may be persecuted for their religious beliefs or their race.
- Asserting that reporting the frauds will prohibit any possible return on their investments.
- Persuading investors not to cooperate with investigations by referring to previously signed confidentiality agreements.
- Producing literature or other presentations that stress shared heritage, language or identity with other group members.

Convicted affinity fraud offender Vaughn Reeves, age 66, used sales material to train church members to sell securities to other members by urging them to fulfill their religious duties. The materials stated, “Never sell the facts, sell warm stewardship and the Lord.” (See “Ind. church financier convicted of Ponzi scheme,” Bay Ledger News Zone, Oct. 21, 2010, <http://tinyurl.com/dy3cjub>.)

One church member who lost more than \$40,000 in Reeve’s Ponzi scheme

said, “It was a good place where Christians would be investing in the work of other Christians. ... We wanted to invest in something honest, doing the Lord’s work, and that just sucked us right in.” (See “Former Pastor Faces Ponzi Scheme Charges in Ind.,” by Jonathon Seidl, Oct. 12, 2010, <http://tinyurl.com/9nu44qp>.)

Fraudsters even exploit entire networks of church communities. In a scheme in Arizona, perpetrators defrauded members of a Baptist congregation of \$530 million by using the Baptist network to scam other Baptist churches.

Scammers in Florida used a church mailing list to target individuals who belonged to other churches. In Alabama, Abraham Kennard was convicted of using a network of approximately 1,600 African-American churches in more than 41 states to defraud investors of almost \$9 million. During his trial, at which Kennard represented himself, he attempted to appeal to the potential religious inclinations of jurors by telling them, “God is the biggest financial backer you can ever have ... and that’s who these people [the victims] put their trust in.” (See “Affinity Fraud” by Trevor Reed, colonendparenthesis.blogspot, May 24, 2007, <http://tinyurl.com/bwb9qze>.)

Buyer beware

A common thread in many of these schemes is that new investors do little or no research into the investment. Ronald Cass, dean emeritus of the Boston University School of Law, commented on the Madoff case and how easily one can be drawn into a scam. “When my wife and I were going to try to pick somebody to do health insurance for us, we asked the rabbi in our congregation, do you know anybody who does this? And he recommended another member of the congregation. We didn’t go out and do due diligence; we didn’t have to. The rabbi said this one’s OK. And I think a lot of that is the sort of thing that was happening with the Madoff investments ... Bernie



Madoff was the chairman of NASDAQ, an advisor to the Securities and Exchange Commission (SEC) ... It was like he came pre-certified. You had every reason to trust the guy. He looked like and sounded like you and your friends.” (See “Affinity Fraud Preys on Groups Trust” by Linda Wertheimer, NPR, Dec. 24, 2008, <http://tinyurl.com/7gvw7wh>.)

Affinity fraud offender behavioral profile

Research confirms that a fraud offender can exhibit an antisocial personality disposition that’s characterized as a pervasive pattern of disregard for and violation of the rights of others, exploitation, manipulation and a lack in social conscience and conventional morality. (See “White Collar Criminals: The ‘Kinder, Gentler’ Offender?” by Frank Perri in the Summer 2011 issue of *The Journal of Investigative Psychology and Offender Profiling*, <http://tinyurl.com/6usyuno>.)

White-collar offenders don’t comprise a homogenous offender group in their patterns of offending, levels of deviance, attitudes toward crime or social identity; their criminal deviancy is indistinguishable from non-white-collar criminals — especially those who are chronic re-offenders.

“White-collar criminals consider your humanity, ethics, and good intentions

as weaknesses to be exploited in the execution of their crimes,” said convicted white-collar criminal Sam E. Antar, CPA, chief financial officer of now-defunct consumer electronics business Crazy Eddie’s. (See “Advice about White Collar Crime” from the blog, “White Collar Fraud,” by Sam E. Antar, <http://tinyurl.com/8nw9qj4>.)

“We measure our effectiveness by the comfort level of our victims, and we increase our victim’s comfort level by building walls of false integrity around ourselves,” Antar said. In another interview, Antar said, “We have no respect for you. Your laws and customs make it easier for us to commit our crimes. It’s a paradox. The more humane the society is, the easier it is to commit crimes. Humanity limits your behavior, but it doesn’t limit ours.” (See “Fraud Girl Interviews Famous Financial Felon,” May 9, 2010, <http://tinyurl.com/76a7b7u>.)

Affinity fraud offenders are predatory, seek out organizations (both for- and not-for-profit) and individuals to victimize, are pathological liars, and may exhibit highly refined interpersonal skills. These offenders are skilled at reading their victims’ verbal and non-verbal behaviors and adjusting their own behavior to appear more credible. They are adept at understanding the mindset of the ones they will defraud, feel no compassion and no empathy for the financial destruction they cause.

According to forensic psychologist Robert D. Hare, Ph.D., those who are most adept at successfully perpetrating affinity fraud are psychopathic because they’re able to target victims who establish emotional bonds with them even though they themselves are not capable of forming empathetic attachments with others. (See “Identifying Psychopathic Fraudsters” by Dick Carozza in the July/August issue of *Fraud Magazine*, <http://tinyurl.com/6oyt99x>.)

Hare said religious groups are extremely vulnerable; belief in the inherent goodness of others and the uncritical acceptance of professions of faith by others are tailor-made for the psychopath who

views their inherent goodness not as a weakness to be exploited. Offenders who engage in affinity fraud are successful at the identification and manipulation of victims who are vulnerable to the offender’s persuasion skills.

Affinity fraud offenders methodically plan and seek out individuals and/or entities with whom they can quickly establish fraud schemes. They may not “fear being caught or what punishments may come their way.” (See “White Collar Criminals: The ‘Kinder, Gentler’ Offender?” by Frank Perri in the Summer 2011 issue of *The Journal of Investigative Psychology and Offender Profiling*, <http://tinyurl.com/6usyuno>.)

The impact of projection bias

An individual uses *projection bias* — a psychological defense mechanism for reducing personal anxiety — to transfer his or her attributes, thoughts, feelings and emotions to other people within a set of circumstances, such as those who have similar characteristics, ages or religious capacities. So, for example, if we’re attracted to a specific house of worship, we assume that others whom we’ll meet there will share our values because they presumably came for the same reasons.

Dr. Sigmund Freud developed the concept of *psychological projection* — the tendency to assume that others share our similar values, beliefs or thoughts. Freud believed that people use what others call “Freudian projection” to reduce their own stress or feelings of guilt, thus protecting themselves psychologically.

The general public typically doesn’t understand that despite the multitude of differences between white-collar criminals and non-white-collar criminals — such as educational achievements, professional attainment and socio-economic considerations — criminals are alike in how they think, attitudes about others and how they see human virtues as weaknesses to be exploited. Criminals of all stripes may feel




entitled to possess resources regardless of the harm they cause others.

Unfortunately, character assessments made through projection bias and not facts accelerate the degree of trust individuals are willing to afford one another. People who know affinity fraud offenders often claim that their offenses were “out of character,” and they may not press charges because they mistakenly think the fraudsters will see the error of their ways.

As forensic psychologist Stanton E. Samenow, Ph.D., posits, people who believe the criminal acted out of character often lack information about aspects of the criminal’s behavior and thought processes. (See “The Myth of the Out of Character Crime,” by Stanton E. Samenow, 2010, <http://tinyurl.com/74daka>.) Criminal thinking patterns have long predated the behavior at issue. These thinking patterns express themselves at a moment of opportunity to exploit. The crime, in fact, may very much be within the character of the perpetrator even though he or she may not have a criminal record.

Persuasion and influence techniques

It’s human nature to trust others until they give us reasons to not trust them.



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When a person seeks to persuade another to do something, social psychology has identified various routes to persuasion: direct and indirect, attitudes, beliefs that affect human interactions and techniques for persuasion that help establish emotional cues used for influencing fraud victims. (See “Social Engineering: Concepts and Solutions,” by Thomas Peltier, *Information System Security*, Volume 15, Number 5, pages 13-21, 2006, <http://tinyurl.com/capkego>.)

A direct, central route to persuasion depends on logical arguments to stimulate a favorable response, which prompts the listener or reader to think deeply about an issue and possibly reach consensus if that’s required. Thus, affinity fraudsters may not use logical arguments because they may have to make statements, which encourage dialogue that might potentially reveal fraudulent activity.

An indirect route to persuasion relies on mental shortcuts that serve as distractions to bypass logical argument and counterargument. Affinity fraud offenders make intended victims more susceptible by triggering emotional responses. Recall how James Bunchan gave emotional speeches, even crying, to

convince the immigrants to invest with him and Seng Tan.

Moreover, several other factors can constitute effective persuasions: authority, similarity, reciprocation and social proof. For example, *authority* plays a vital role since people are conditioned to respond to authority figures without diligently verifying their legitimacy. Social psychologist Robert Cialdini has observed that unless there’s strong evidence to the contrary, people have a natural tendency to think that statements reflect the true attitude of the person who made them. (See “Influence: The Psychology of Persuasion” (Collins Business Essentials) by Robert Cialdini, 1993, <http://tinyurl.com/2qy9ux>.)

These observations are clearly illustrated in affinity fraud schemes because offenders try to target the leaders of a group or church congregation to convince all of them to join him or her in the financial opportunity. Thus the leaders are usually the first to gain financially from the scheme, which reinforces the belief it’s legitimate.

In many social situations, one of the mental shortcuts on which we rely in determining the course of action that’s most appropriate is to see what other people in the vicinity are doing or saying. This phenomenon, known as *social proof*, can prompt us to take actions without taking the time to investigate them more deeply and may be against our self-interest.

We see this again with the earlier statement by Ronald Cass: “Bernie Madoff was the chairman of NASDAQ, an advisor to the SEC; he was someone who had within his circle of clients enormously successful people. It was like he came pre-certified.” Our identification of a person as having characteristics identical or *similar* to our own provides a strong incentive for people to adopt a mental shortcut in dealing with that person. The optics of identifiable characteristics and affiliations creates the dynamic of inuring moral, trustworthy traits to an individual that may or may not exist.

Moreover, a well-recognized rule of social interaction requires that if someone

gives us or promises to give us something there’s an inclination to *reciprocate* by providing something in return. For example, one can observe how affinity fraud offenders contribute to their targets’ causes by donating money to prove their allegiance to groups with the expectation that the target audiences will feel obligated to perhaps listen to the offenders’ opportunities and/or participate in the opportunities. This *reciprocation* is illustrated by offender Thomas Petters donating millions of dollars to charities and religious organizations that invested with him — common technique of affinity fraud offenders in general. (From “The collapse of the Petters empire,” by David Phelps and Jon Tevlin, Oct. 26, 2008, <http://tinyurl.com/csv85t8>. Also, see “Not just through religion” sidebar on page 48.)

Minimize the risk of affinity fraud

Experts recommend the following ways, among many others, to avoid affinity and other scams. (See “Birds of the Same Feather: The Dangers of Affinity Fraud,” by Frank Perri and Richard Brody in the Fall 2011 issue of the *Journal of Forensic Studies in Accounting and Business*, <http://tinyurl.com/7wtqebb>.)

1. Investors shouldn’t let their guard down when someone appeals to their professional, cultural, racial or religious background. Investigate investments thoroughly. Be wary of investments that promise spectacular profits or “guaranteed” returns with little or no risk.
2. Avoid an investment if told by the promoters that they don’t “have the time to reduce to writing” the particulars about the investment or that they’re unregulated because they’re for “religious” institutions.
3. Be wary of investments that are pitched as “once-in-a-lifetime” opportunities, particularly when the promoter bases the recommendation on “inside” or confidential information.
4. When investors are told to keep the investment opportunity “confidential,”

it's a red flag. Find out how long the business has been in operation, where it's registered, and make sure it's registered to do business in your state.

5. Obtain in writing information that details the risk in the investment, financial statements, any conflicts of interests and procedures to get your money out.
6. Ask for neutral professional advice from an outside expert not associated with the salesperson to evaluate the investment.

Overcoming trust to fight fraud

Attacking affinity fraud is inherently difficult because group trust is often so powerful in overcoming people's skepticism that almost anyone can fall prey to such scams. Affinity fraud relies on people reducing formality as a result of their familiarity impulses; however, the "special trust" members of a group believe they share with someone isn't a substitute for due diligence and implementing safeguards to protect the interests of the group. ■ **FM**

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'Guaranteed' risk-free

In 2005, a federal district court judge sentenced Winston George Ross, then 57, to a nearly 13-year prison term and ordered him to pay more than \$4.3 million to his victims for foisting an affinity fraud scheme on them.

He promoted a fraudulent investment program to members of the Seventh-day Adventist Church and collected more than \$6.5 million from more than 250 victims. Ross, during a series of presentations to church members, encouraged them to legally incorporate themselves so they could avoid paying federal income taxes. For a fee of \$600, Ross would assist them in preparing paperwork to become incorporated.

At his presentations, Ross also promoted three investment programs. He acted as a middleman for two of the investments by collecting

money that others would then invest. However, Ross managed the third program, the "10% Program," out of his Apopka, Fla., residence. Ross told investors that this risk-free program would provide guaranteed returns of at least 10 percent a month for 15 months. He told investors who deposited more than \$100,000 they would be paid 12 percent a month, and he guaranteed 15 percent a month for those who invested more than \$300,000. Ross encouraged victims to refinance their homes or take cash advances on their credit cards so they could invest in the program.

Ross' management of the money invested in the 10% Program generated little, if any, income. He made 10 percent interest payments to some investors, but that money was either their

initial investment or came from money deposited by subsequent investors. He lost much of the money to investments on Internet sites, or he spent it.

The scheme ran from August 2001 until March 2003 when Ross ran out of money to make the promised interest payments. When the scheme collapsed, investors in the 10% Program lost at least \$3.5 million.

(See "Florida Man Convicted in Affinity Fraud Scheme that Targeted Members of Seventh Day Adventist Church," Department of Justice, July 29, 2005, <http://tinyurl.com/8w83gf7> and "Florida Man Sentenced to Nearly 13 Years in Prison for Running Affinity Fraud Scheme that Targeted Members of Seventh-Day Adventist Church," Department of Justice, Nov. 7, 2005, <http://tinyurl.com/9nfag4c>.)

Not just through religion

Although affinity fraud often occurs in a religious environment, some frauds prey on other specific traits such as age and even phony links to royalty:

- Convicted white-collar criminal and disbarred attorney Edward Digges, 63, targeted senior

citizens, whom he located with newspaper ads. (Digges had already served time in federal prison for mail fraud.) He collected at least \$10 million by promising investors annual returns of 12 percent. (See "Former Attorney

Sentenced To 99 Years In Prison for Ponzi scheme; Edward S. Digges Was Recidivist Offender," by Patrick Pretty, Feb. 20, 2010, <http://tinyurl.com/9e649mp>.)

- Korea-American and affinity fraud offender Peter Son