

STUDY OF FINANCING SCAM- A NEW VARIETY OF ADVANCE SCAM

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Abstract - Confidence schemes have evolved over a period of time from the earliest Spanish prisoner scam to the Nigerian letter scam. These scams target a broad range of customers through emails and letters. This paper investigates a confidence scam named Financing scam, while this scam shares some similarities with the other confidence scams, there are stark differences in the way it is executed. In this scam the con artist poses as a loan facilitator and collects money from the victims for facilitating a loan against property. When compared with the other scams the victim profile in this scam is more homogenous. The method of operation is more through cultivating personal relationships than online. Over a period of 3 years we have studied several such cases in the south Indian states of Andhra Pradesh, Telangana, Tamil Nadu and Karnataka by interacting with several victims, alleged con artists, law enforcement officials and legal experts. Employing field research we have identified the modus operand of this scam and reconstructed the target victim profile. In this paper we will discuss in detail the factors that make the victims to believe the con artist and the techniques employed by the con artist in successfully pulling of this con. After verifying the accounts of the victims through third party sources we have estimated that on average the victim is conned over a period of 15 months for an average amount of Rs.45 Lakhs. The duration of the scam and the average amount scammed are higher than the other reported confidence scams and advance scams. This paper also presents the loop holes in the legal system that these con artists utilise in executing the scam. This paper presents a checklist for readers to identify this scam so that they can stay clear of these con artists.

Keywords - Confidence Scam, Advance Scam, financial Crimes, White Collar Crime.

I. INTRODUCTION

Confidence schemes are schemes were the perpetrator who is also referred to as "con artist" or "artist" approaches the victim and cheats him of his wealth. Confidence schemes are of varied nature and have evolved over the ages. From the money box scheme, salting the mine scheme to the latest Nigerian letter scheme the modus operand of the con artists has evolved. In this paper we will look at a specific scheme that has been recently popular in India, the "Finance Scheme". In this paper we will look at the various ways in which the scheme is operated, how the victims are conned into the scheme. We will list out clear guidelines for detecting this scheme which will be helpful for readers in detecting these schemes so that they can safeguard themselves from these con artists.

Many researchers have spent considerable time and effort in researching the online scams like the Nigerian Letter scam¹, Spanish prisoner scam² and sweet swindle scam³. Although the finance scheme in India seems similar to these scams there are certain key markers that distinguish the finance scam from these scams. For example the victim profile in this scams is a lot similar and the con artists have done careful due diligence in selecting the victim. Also they approach the victim through agents. The way in which from the much of the work is done by doing personal relationship. During the research conducted for this paper we have interacted with 12 victims and 20 con artists and agents. The discussions were held via phone and in person visits.

II. MODUS OPERAND OF THIS SCHEME

In our study we have met with more than dozen victims and 20 con artists in the states of Andhra Pradesh, Telangana, Tamilnadu and Maharastra. The modus operand of the individual artists has slight variations in the execution but follow a similar script. We will look into that in detail in the next paragraphs. The con artist claims to be facilitator who arranges loan against property. He promises to arrange finance for industrial projects or investment at a low rate of interest, anywhere between 8% to 12% per annum. The loan amount promised is usually to the tune of Rs100 Crores (\$16 million approximately) and above. The artist claims that he is working for a financier who has access to funds who is looking to park his funds. He tells the victim that he has to maintain extreme discretion and he is doing him a favour by arranging finance at such low cost of capital. The victim is initially asked to deposit an amount of Rs.50,000- Rs.1,00,000 as application fee along with a list of KYC documents required for processing a bank loan, property documents and project report. After a period of 7-15 days the victim will be told that the financier has gone through the submitted documents thoroughly and his team will visit the location of the business premises and the properties for physical verification. The victim will be asked to deposit amount of Rs.1,50,000- Rs.3,00,000 as legal and valuation charges and also bear the expenses of the trip of the so called lawyer and auditor. At this point of time at least two persons claiming to be an auditor and lawyer of the financier visits the victim for a day, conduct the so called inspection. The artist advises the victim not to discuss in detail with these

people as this will be seen as a sign of desperation for obtaining the loan and this will hamper the chances of obtaining the finance.

At this point the scheme takes various forms. In some cases the artist contacts the victim and informs him that his project has been approved by the syndicate of the financier and they are ready to disburse the money. However he is asked to pay amount to the tune of 1% to 2% of the amount as processing fees. The artist reasons that if the victim cannot pay 2% of the processing fee it raises concern over his financial ability to repay the entire loan. The victim raises money by borrowing from near friends and family claiming he will be able to pay them back in short time. However after payment the promised money never comes. The victim is given a different stories such they have dispatched the money in a vehicle and it will arrive in a week's time, they are trying to make an online transfer and they are facing problems with the victims bank account. After sometime the victim is asked to arrange for additional funds usually ranging between another 0.5%-1% claiming that they need this amount to facilitate the handling of the cash or for arranging an online transfer. The victim is told that unless he makes this small payment all the payment he has made will be forfeit. The victim arranges for further funds. This goes on till the victim has exhausted his sources for raising money or has lost his patience or approached law enforcement authorities.

In other variations, the con artist tells the victim that the collateral offered is not sufficient for the loan he has requested. He asks the victim to arrange for third party collateral, property of other persons to be offered as collateral for the victim to avail the loan. The victim tries to arrange the collateral through his friends and associates. Every time the victim takes a property details to the artist the victim is asked to pay for the valuation and legal expenses amounting to Rs.1,50,000 to Rs.3,00,00 again in addition to the expenses for the visit. After the visit again he gets an adverse report saying that they cannot finance on the said property. In some cases the victim loses his patience and puts an end to this and demands repayment of the amount paid. However the artist claims that since the victim has not fulfilled the requirements for the loan and the victim has paid the amount knowing fully that the amount is non refundable, the artist is not obligated to repay the amount.

In other cases the victim approaches the artist to solve the problem. The artist offers a solution by volunteering to arrange a third party collateral and brings in another party offering collateral for the victim for a fee. The victim pays the third party some fee to the tune of Rs.5,00,000 to Rs,10,00,000 as initial payment for obtaining the documents of the

third party. The victim pays this amount to the third party and the legal and valuation fee to account specified by artist. Again the so called physical verification of the property is done. After a few days the con artist ensures that everything is all right and payment will be disbursed shortly after payment of transaction costs ranging from 1% to 2%. If the victim agrees and pays the amount he is made to wait for a few days and then given a date for receiving the funds. However just before that day he is informed that there is a legal problem with the third party collateral and the deal is off. The victim is informed that they have incurred transaction costs for arranging funds for making payment however due to issues with the legality of the property the fund cannot be released and the amount paid by the victim cannot be returned.

III. VICTIM PROFILE

For research pertaining to this data we have reached out to more than Fifty victims. After interacting with them thoroughly and verifying their stories from third party sources we were able to authenticate only Twelve accounts as reliable. Based on these accounts we have built a potential profile that is used as a checklist by the con artists in selecting their victims. The victim is a individual with high net worth with good fixed asset base. Usually a businessman looking for access to finance at a lower cost. The person is fairly educated and has affluent friends and near family. The victim may be having a short term liquidity crunch owing to his business or personal commitments. The victim will be in position to raise capital by pledging his fixed assets.

The victims include businessman running established business and are aspiring businessmen looking to start or expand a business. Their reasons for looking for a loan included, business expansion, launch of new projects. However they had limited exposure dealing with public sector banks or are not satisfied with the service or finance offered by their current banker. The reasons they opted for private financing over conventional bank or other financial institutional lending are the promised lower interest rates, short disbursement periods and long term lending. Let us first look at the data pertaining to victims.

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| Number of Respondents | 12 |
| Occupation: | Business in the fields of manufacturing, Real estate, Fisheries, Import-Export, Software services and construction. |
| Location of Business: | Andhra Pradesh, Telangana and Tamil Nadu |
| Amount of Loan Offered | Rs.25-400 Crores Average: Rs115 Crores |

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| No. of Levels of Agents | Ranged from 2 to 4. They had met with atleast 2 agents before they can get in touch with the con artist. |
| Application Fee | 100% of the victims paid the application fee. range Rs.1.5 Lakhs to Rs.2 Lakhs. Average Rs.1.67 lakhs |
| Legal and Valuation fee | 100% of the applicants paid atleast some amount towards legal and valuation fee. The Average valuation & legal fee paid is Rs.2.79 Lakhs, it ranged from 1.5 Lakhs to 4.5 Lakhs. |
| Transaction fee | 67%. Average Transaction fee paid :Rs.47.56 Lakhs Range: Rs.10 - Rs.100 Lakhs |
| Third Party Collateral | 58% of the applicants were asked to offer third party collateral. The Average amount paid for obtaining documents of third party collateral is Rs.8.43 Lakhs. It ranged from Rs.5 Lakhs to Rs.10 Lakhs |
| Average amount of money given to the con artist and his associates | The average amount paid to con artists is Rs.41.08 Lakhs. It ranged from Rs.3 Lakhs to Rs.115 Lakhs among our victims. |
| Average amount of expense incurred by the victim. | Rs.44.46 Lakhs. It ranged from Rs3.5 Lakhs to Rs.120 Lakhs among our victims |
| Average Duration before the victim realises the con | 14.42 Months. It ranged from 3 month to 24 months. |

All of the victims met the con artists through an acquaintance who did not have a direct relationship with the con artist. There were at least 2 intermediately persons in between the con artist and the victim. The con artist posed as a guy with connections in the high society and always met with the victim either at the victims place or at high end hotels and restaurants. The Con artists first gathered detailed information from the victim regarding the victims business proposal, financing needs and current efforts in obtaining financing. After gaining complete information about the financial situation of the victim and gaining his trust the con artist sets in motion his con.

He promised to arrange finance for their business venture at a low interest rate and within 20 days to 1 month. They collected copies of all relevant documents required for a bank loan like copies of KYC documents, Net worth documents, business licenses, financials and project report. Along with this

they collected application fee for processing their loan application.

All of our victims have paid the application fee. Usually after a week, the con artist conveyed the message through an intermediately that the application is accepted and the victim needs to arrange money for legal and valuation of the collateral security documents. All of our victims have paid this amount also. After completing this step they have mentioned about the third party collateral or transaction fee. Among the applicants 58% were asked to arrange for third party collateral and have paid amount to an associate of the con artist for arranging it. Among the applicants 67% of them have paid the transaction fee on promise of receiving the funds. On an average the victims have paid Rs.41.08 Lakhs to the con artist and incurred an expense of Rs44.46 Lakhs. They have waited for a period of 14 months before realizing the con and approaching the authorities.

IV. CON ARTISTS PROFILE

We have interviewed 25 con artists who claimed to facilitate loans from discreet financiers. We have got relevant data from 20 of them. In each case we have approached them posing as a prospective businessman looking for a loan against collateral for starting a new venture. In the first two meeting they have discussed mostly about our loan requirements and our experience in managing and running a business. The con artist plays the part of a curious investor who is interested in helping the victim. After establishing a personal relationship over a couple of weeks the con artist tells the victim about his proposal. He empathizes with the victim about his troubles in finding capital for his venture while stressing how he is connected in the right places and had arranged funding for some people with very favourable terms. He explains his proposal when the victims requests his help in obtaining financing. We followed the same routine with the con artists we have interviewed. However when we heard their proposals they seemed ambiguous with regards to the advance fee required. When we have asked them to list out the specifics some of them have become evasive, later when we confronted them with the facts that no bank requires up front processing fees, some of them became defensive and said this is how the market works and if we need financing we need to follow their set procedure.

V. LEGAL DIFFICULTIES IN PROSECUTING THE CON ARTISTS

We have spoken to key law enforcement officials and lawyers in understanding how these con artists are evading the law. According to them in most cases it is difficult to establish the fact that the victim has been conned. It appears that the victim has paid the

fee with full knowledge and consent. Fees paid in cash cannot be legally established and traced to the victim. Although some fees are paid through online transfer or cheques, the con artist claims they are for consultancy services rendered. Sometimes the victim is offered personal cheque as a guarantee for the advance fee paid. However it is not sufficient to establish a debt between two parties. In most cases the victim is asked to sign an agreement when he has paid the advance fees, however there are loopholes in the agreement that safeguard the con artist.

VI. REASONS FOR CON ARTISTS TAKE ADVANTAGE OF VICTIMS

There are three main factors that aid the artist in successfully pulling of the con. Victim's Need for financing, Con artist and his teams know how about bank financing, Victims fear of loss of face in reporting the con.

Over the last few years many banks and financial institutions in India are burdened with bad loans originating from the industry sector. Due to this banks have reduced their lending towards corporate sector and have increased their exposure in the retail sector. This has made availing loans from banks difficult. Prospective business owners looking to start or expand a business have to deal with harsher scrutiny and a longer wait time for disbursement. These con artists are using this situation and are luring victims with promises of low interest financing in quick time. The con artists do their home work on the bank loan sanctioning process, they seem to follow the exact same process and request the same documents for the loan financing. This makes the process seem genuine. Finally although the victim realizes something is wrong, he continues to deny the facts as he has spent a lot of money and time on this venture. He is afraid to acknowledge the con for the fear of losing this money and his reputation when the news become public. He finds solace in believing the con and awaits for the big payday that is due anytime.

VII. HOW TO SPOT THIS SCAM , MARKERS THAT WILL HELP IN IDENTIFYING THE FINANCE SCAM.

How can potential victims identify this scam. Like all scams this seems too good to be true. Although when compared with developed economies the interest rates charged by the banks seem to be high, they are in fact the cheapest source of financing. When someone is offering you to arrange for finance at lower interest rate, chances are you are led towards an advance scam. Whenever a proposal for financing comes, try to get the proposal in writing. This way the con artist has to give the specifics, and he cannot change his terms later. In traditional bank financing the charges for valuation and legal verification are specified by the bank, they are of the order of Rs.10,000-Rs.50,000. Also processing charges if any are deducted in the account after disbursement of the loan, not before. When in doubt raise this issue with a chartered accountant and heed his advice.

VIII. FURTHER WORK

This is a recent scam and the victim profile available is limited. It is highly possible that many victims have not reported this con fearing loss of face. Information about this con should be made accessible in the public domain so that potential victims can stay clear of these con artists.

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