

Investment schemes

Why this risk matters

- Dubious and fraudulent investment schemes can negatively impact people's lifestyle, financial security and mental health. The promoters of dubious investment schemes often try to legitimise them by involving solicitors and law firms. They often tell people that their money is safe because the solicitor's professional indemnity insurance (PII) and the Compensation Fund will protect their money. Suggesting these protections are available is misleading as compensation is not guaranteed.
- Very few solicitors knowingly become involved in the promotion or administration of a questionable investment scheme. However, some might get involved by acting for the promoter of a scheme or for the people interested in investing their money in these schemes. Sometimes solicitors' involvement is to pass people's money through their client account.
- We are concerned about schemes that use a solicitor's reputation to encourage people to invest. The damage and financial losses for people can be high. If solicitors are involved in such schemes, they risk harming public trust in the profession. We are likely to take action in these cases, including making a referral to the Solicitors Disciplinary Tribunal (SDT).

Trends

- Dubious investment schemes might offer unrealistically high returns for people and lead to significant losses of money. We have seen schemes for potential investment in:
 - off-plan property
 - hotel room leasing
 - car park spaces
 - bank instrument trading
 - fine wines
 - art
 - diamonds.
- In September 2018 we were investigating 35 reports of investment fraud, which is a reduction from the 51 reports we were investigating in March. However, this does not mean that the issue is becoming less serious. Many of the claims involve groups of people.
- There have been 114 claims to the Compensation Fund totalling £48.2m since 2015 relating to investment schemes. This figure does not include claims to the Compensation Fund about mortgage fraud.
- Financial Conduct Authority (FCA) research [<https://www.fca.org.uk/news/press-releases/over-55s-heightened-risk-fraud-says-fca>] found that over 65s, with savings of more than £10,000, are three and a half times as likely to fall victim to investment fraud.

What can firms do

- Solicitors and firms must not become involved in questionable investment schemes and should:
 - read and follow our warning notices on investment schemes and the client account [[solicitors/guidance/warning-notices/investment-schemes-and-client-account-warning-notice/](#)], investment schemes and conveyancing [[solicitors/guidance/warning-notices/investment-schemes-including-](#)

conveyancing--warning-notice/] and on Rule 14.5 of our Accounts Rules 2011
[solicitors/guidance/warning-notices/improper-use-of-client-account-as-a-banking-facility--warning-notice/]

- carry out due diligence on any promoter of an investment scheme
 - never allow the client account to be used as a banking facility [solicitors/guidance/warning-notices/improper-use-of-client-account-as-a-banking-facility--warning-notice/]
 - not provide advice or services where there is no genuine underlying legal transaction
 - not allow regulatory protections, such as PII and the Compensation Fund, to be used to persuade or reassure people to get involved in these schemes
 - not give anyone the impression that they are a client if they are not – they should clearly tell people whether or not the firm is acting for them
 - not take unfair advantage of people
 - carefully analyse any complaints or contact from people who are not clients but are affected by a transaction, as this may help uncover a questionable scheme
 - get help and advice from our Professional Ethics team [home/contact-us/] to understand obligations and help with dilemmas.
- The Financial Conduct Agency's Scam Smart page [https://www.fca.org.uk/scamsmart] contains advice on recognising the warning signs of investment fraud.
 - Our investment fraud [risk/risk-resources/investment-fraud/] paper gives more information about the signs of investment fraud and the consequences for those who become involved.

What are we doing

- Where solicitors have allowed their client account to be used as a banking facility, or have become directly involved in questionable schemes, we will act to protect the public. Solicitors who act dishonestly, or without integrity, can expect us to take disciplinary action and refer them to the SDT.
- We are carrying out research to understand why people get involved in dubious schemes. We can then give the public information so that they are less likely to be drawn into these scams.

Read our full Risk Outlook [risk/outlook/risk-outlook2018-2019/]