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CROWDFUNDING SCAMS

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1. Background:

Crowdfunding is a new way of financing which has emerged in recent years. Crowdfunding refers to a method of raising capital through the collective effort of members of the public, community members or individual investors for a project that may social, welfare or even profit-driven objectives. This approach taps into the collective efforts of a large pool of individuals' funds. Trends show that it is primarily conducted online via social media or crowdfunding platforms through different methods. The below are key methods used frequently:

- a. **Donation-Based Crowdfunding:** This is a campaign in which there is no financial return to the investors or contributors. Such could be for disaster relief, charities, non-profit organizations, and medical bills etc.
- b. **Reward-Based Crowdfunding:** Refers to individuals contributing to a business in exchange for a reward, typically a form of the product or service that is offered by the company.
- c. **Equity-Based Crowdfunding:** Allows contributors to become part-owners of a company by trading capital for equity shares¹.

Crowdfunding itself is not a scam, there is nothing wrong with starting a crowdfunding campaign or donating to one. However, there are plenty of scams associated with it. The FIC, in its duty to enhance public awareness around potentially fraudulent schemes, presents this communication.

2. How do Crowdfunding scams operate?


By tapping into a wider pool of investors' funds, one is able to raise capital. Crowdfunding is one way of generating resources or capital needed for specific causes.

To attract members of the public as potential investors, the perpetrators often use various advertisement platforms such as social media, newspapers, radios, home meetings, seminars and online crowdfunding platforms like Kickstarter, Indiegogo, GoFundMe, etc. To enhance credibility, they usually produce illicit referrals, testimonials and information to lure their victims.

¹ **Equity shares** refer to the fraction of a company's assets that a company gives shareholders in exchange for money.

The scammers ask for a certain amount of money from numerous potential investors or those wanting to donate to worthy social or welfare causes. With most business-driven crowdfunding activities, the scammers promise rewards to investors, which can be in the form of products, services or shares in an entity. However, when the scammers receive the investors' money, they do not produce any product, nor support any project, or offer any reward in return. They take the proceeds for themselves.

3. How to protect yourself from Crowdfunding scams?



Do your own research on the campaign before offering support. Examine the legality of the organization, the organization's contact number, website, e-mail address, the creator's accountability. Verify that such organization or cause is registered, recognised and authorised by relevant authorities. Locally for example, welfare organizations need to be registered with the Ministry of Health and Social Welfare. Always verify that the people behind the proposed project demonstrate the required expertise to run the project.;

Ensure that the project you are supporting is realistic, it makes sense and there is a chance of the project succeeding. Some ideas are easier to bring to life than others e.g. a crowdfunding account that has been set up by a single individual with the goal of fighting terrorism may be suspicious;

Verify the truth of the claimed need and put emotions aside when it comes to charity campaigns. Scammers can set up crowdfunding accounts where they post bogus pictures and details of people with severe illnesses or people involved in fatal accidents to prey on kind-hearted donors;

It is advisable to give support to campaigns where you know the people involved. This will help in assessing whether the beneficiary's need is legitimate and that the organizer is trustworthy to use the funds for what they are intended for;

Donate to a recognized charity organization that has a proven track record of working with a particular cause. Review their goals and find out how they plan on carrying out their mandate with the funds collected;

Most crowdfunding platforms provide a "comments" section where supporters can interact with each other, as well as the project's creators. Read the comments if you are planning on funding a project as these comments are a great resource that can provide insight on the project; and

After offering financial support to the project, keep an eye on the project's progress throughout the entire process. Regularly visit the campaign page, check for updates, and keep reading the comments, until the end of the project.

REMEMBER

Crowdfunding is not illegal. There is however a growing tendency of such methods being abused to defraud innocent members of the public. Not only do these scams result in huge financial losses for investors or donors, but they also divert much-needed support away from legitimate charities and causes as legitimate donors become sceptical.

If you suspect that known crowdfunding activities are suspicious, report same to relevant authorities such as the FIC. If you suspect or know that you may have been a victim of a crowdfunding scam, alert your bank immediately to stop facilitating any direct payments/deductions from your account.