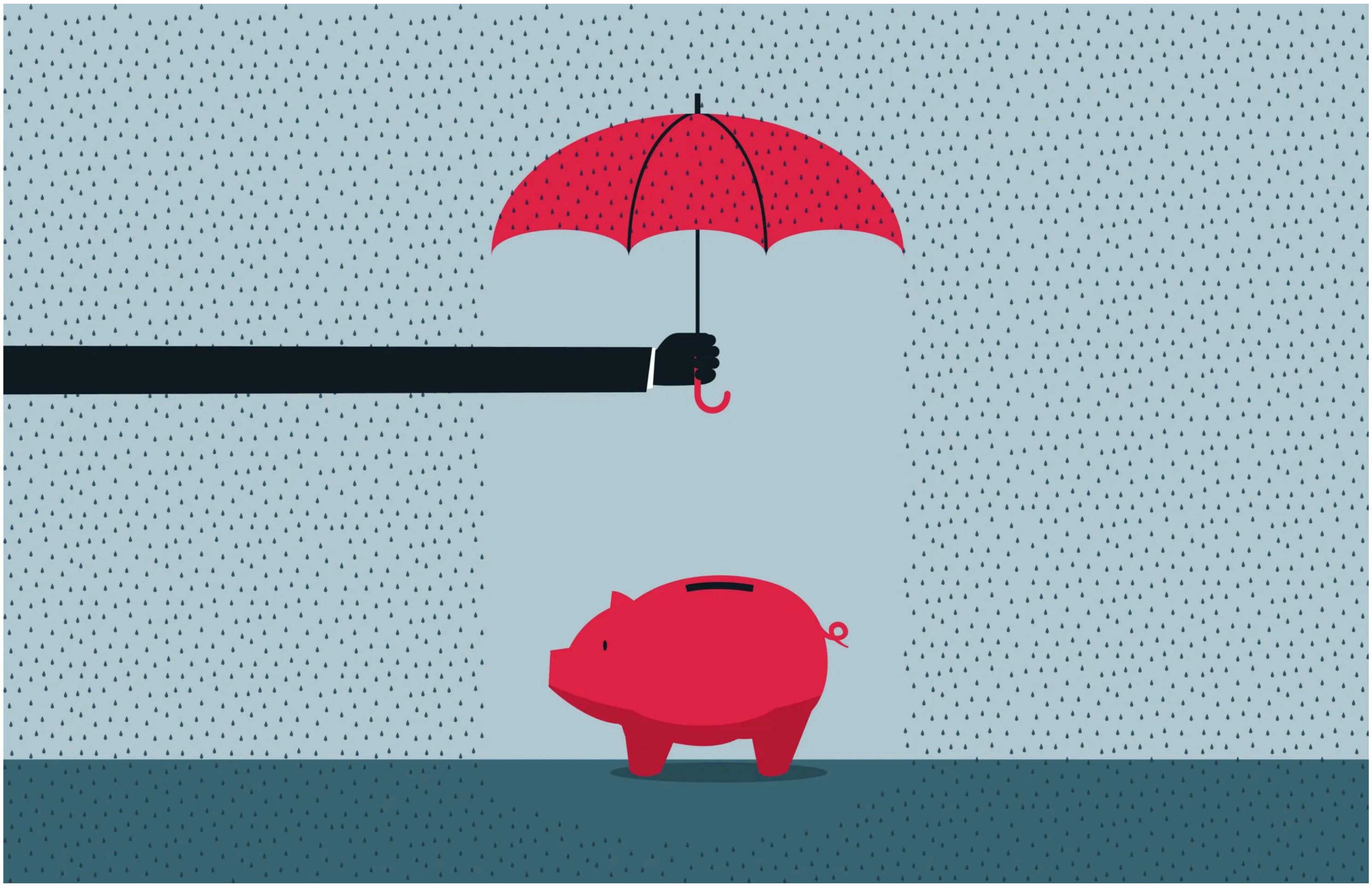

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Canada Protects Banks From Fraud. Why Not Investors?

One scam can erase a lifetime of savings. A compensation fund can bring some of it back.

BY JEAN-PAUL BUREAUD

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SEPTEMBER 18, 2025

Bridging Finance Inc. was once one of Canada's largest private lenders, managing more than $2 billion for more than 26,000 investors—many of them everyday Canadians. In 2024, David and

Natasha Sharpe, the husband-and-wife duo who ran the firm, were found guilty of fraud. Their misconduct included accepting kickbacks from borrowers and diverting a $40-million loan to themselves.

In June, a tribunal ordered them to pay more than $27 million in penalties. But the real damage is that investors lost about $1.3 billion, most of which will never be recovered. The betrayal stings a bit more because Bridging Finance was no fly-by-night operation. It was a registered entity, obligated to comply with securities law. For all appearances, it was legitimate—until it wasn't.

Fraud of Bridging's scale is rare, but misconduct by registered firms and individuals happens more often than many realize. Seniors are especially vulnerable and face lasting harm, as most are unable to recover the lost money. In 2022, Marc Leon St. Pierre, an Alberta-based financial adviser, was sanctioned for stealing more than $4 million from 16 client accounts. Most of his victims were over the age of 75. In 2024, after defrauding a retired couple in British Columbia of more than $325,000, former mutual fund representative Alvinder Singh Gill was fined and banned from the financial industry.

More Canadians are investing than ever before, whether to save for retirement, pay for their kids' education or simply to try to get ahead. But as their participation grows, so does their vulnerability. Between 2019 and 2023, reported losses from investment scams surged from about $16 million to $300 million—roughly a twentyfold increase. This trend shows no signs of slowing as fraudsters use AI to create fake websites and even mimic people's voices. And that's just the tip of the iceberg: about 90 to 95 per cent of victims never come forward, often due to shame or embarrassment. The true costs of investment fraud in Canada could well exceed $3 billion per year.

My first exposure to financial fraud was investigating Bre-X Minerals Ltd., one of Canada's most infamous gold mining scandals. Since then, I've focused my career on strengthening the regulatory system. Today, I'm the CEO of FAIR Canada, a national non-profit charity that advocates for the rights of individual retail investors. One of our most urgent priorities is preventing the kind of catastrophe that devastated investors in the Bridging Finance case.

People often ask: "If my credit card gets compromised, the bank stops the payment and calls me right away. Why can't they do the same thing when it comes to my investment account?" It's a fair question. With credit card fraud, the bank's money is at risk. They're extending you credit, so they have a strong incentive to act quickly. They're also required by law to invest in sophisticated systems to detect suspicious activity. While travelling abroad recently, I tried to use a new credit card and within minutes, my bank froze the transaction and called to ask, "Are you really making a purchase outside of Canada right now?"

Investment fraud is a different beast. When it happens, it's not the financial institution's money that gets stolen; it's yours. Arguably, banks don't have the same incentive to build the same robust protections they've developed for credit cards. Investment accounts are also harder to monitor for suspicious activity. Fraudsters may be licensed individuals with access to your account or scammers who, through emails, phone calls or even personal referrals, convince you to withdraw funds or, worse, hand over your account login and password information.

Even when securities regulators catch the bad guys, there's often little money left to recover. It's usually been spent, moved offshore or hidden in shell companies. And here's something else most people don't realize: regulators are not responsible for helping you get your money back. They investigate misconduct, remove bad actors from the industry and deter future violations—they don't recover stolen funds. If you've been defrauded, you can't just call your regulator and say: "Help me get my money back." That's not what they do.

That's precisely why we need better ways to help investors recover their money. One promising solution is to set up fraud compensation funds, which reimburse eligible investors for some or all of their losses. These aren't blanket bailouts. They're financial safety nets designed for people who entrusted their money to a registered firm and then lost it due to fraud. Think of it as insurance protection for when you've been deceived by someone you trusted to look out for your interests.

Quebec has had one since 1999, called the Fonds d'indemnisation des services financiers, or FISF. Unlike most investor-protection schemes in Canada, which typically only kick in when a firm goes bankrupt, Quebec's fund is designed to compensate victims of financial fraud. No other province offers this kind of protection. Since its launch, the FISF has paid out about $60 million to roughly 1,800 victims. The largest payout came from the Norbourg scandal, when fund manager Vincent Lacroix defrauded thousands of investors. Thanks to the FISF, 925 victims received roughly $31 million in compensation. More recently, the FISF paid out over $9 million to 414 victims of the Cape Cove fraud case—a Ponzi-style scheme involving a registered financial firm. While the fund can pay up to $200,000 per claim, many victims receive smaller amounts. For anyone who has lost money due to investment fraud, every dollar recovered makes a difference.

Canada will likely never have a single national fraud compensation fund. Securities and many financial services are regulated at the provincial level, and efforts to create a national system have consistently failed. But progress is still possible. Provinces can act on their own, and Quebec has already shown the way. Ontario may be one of the best-positioned provinces to follow suit. In 2021, its Capital Markets Modernization Taskforce concluded that banning fraudsters from the industry doesn't help the people who lost their savings. Victims need a way to be compensated. That was the right diagnosis.

The first question is how to fund it. In Quebec, every registered financial firm and representative pays an annual fee of a few hundred dollars. That approach makes sense. Those are the people who profit directly from their clients' activity and who hold positions of trust. The alternative—funding it with taxpayer dollars—would be like asking victims to pay for the damage they suffered.

Up next is whether to cap compensation. Provinces could set their own cap or follow Quebec's $200,000 maximum payout per claim, which strikes a balance between providing meaningful compensation and making the fund more sustainable.

Scope is also a critical question. Quebec's fund covers financial fraud by any firm or individual licensed by the province's financial services regulator, the Autorité des marchés financiers. Ontario, by contrast, doesn't have a single body overseeing all financial services and products. That responsibility is split among several agencies, including the Ontario Securities Commission and the Financial Services Regulatory Authority, or FSRA. So, should an Ontario fund be limited to securities fraud? Or should it also cover products and services regulated by the FSRA?

Ultimately, who should run the fund? In provinces with multiple financial services regulators like Ontario, B.C., Alberta and Nova Scotia, responsibility could be split among different agencies, or a new dedicated body could be set up to streamline the process for victims.

For those affected by fraud, the claims process should be simple and straightforward. Victims would submit documentation showing they entrusted money to a registered firm and suffered losses due to fraud. The fund would then review the evidence and decide whether compensation should be provided. The goal is to create a one-stop administrative process for recovery and to avoid costly, drawn-out legal battles in the courts.

There’s no doubt financial players who are asked to pay for the fraud compensation fund will push back. Many opposed the idea when Quebec introduced the FISF. They argued that the costs would be passed on to clients or that it unfairly penalizes honest players. Some even claimed it creates a moral hazard, suggesting that firms and investors might be less cautious if compensation is available when fraud occurs.

Quebec has proven that a fraud compensation fund can work. Their fund fills a critical gap in investor protection and provides real relief to ordinary Canadians who have been cheated by those they trusted. When Quebec launched its fund, other provinces promised to study it. Yet 26 years later, nothing has changed. Canadians outside Quebec should be asking: why does Quebec have this and we don’t?

Right now, support for fraud victims in most of Canada is piecemeal at best. And many solutions only help those who are persistent enough to navigate a fragmented system. Catching the perpetrators rarely leads to putting money back in victims’ pockets. Regulators can take strong action against fraudsters, but when the money is gone, it’s gone. And many cases of investment fraud are never investigated at all.

When people are defrauded and never recover any money, it erodes confidence in the entire system. When investors lose trust, they are less likely to invest in our markets, making it more expensive for everyone, including honest businesses, to raise capital.

Fraud is becoming more sophisticated and more frequent every year. It's time we do more to support ordinary investors when things go wrong. Quebec's fund proves that real help is possible. It's time for other provinces to step up and consider creating their own fraud compensation fund.

Jean-Paul Bureaud is the CEO of FAIR Canada

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