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*Mass Marketing Fraud Affecting
Canadian Businesses
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About The CAFC

The Canadian Anti-Fraud Centre (CAFC) is an international call centre specializing in central sourcing complaints on mass marketing fraud, ID theft, West African Fraud Letters, Internet Fraud and other scams with a Canadian connection. It is coordinated by the Royal Canadian Mounted Police in partnership with the Ontario Provincial Police and the Competition Bureau. The CAFC commits to providing timely, accurate and useful information to assist citizens, businesses, law enforcement and governments in Canada and around the world. The primary goals are prevention through education and awareness, disruption of criminal activities, providing assistance with enforcement, and strengthening partnerships between the private and public sectors with the aim of maintaining Canada's strong economic integrity. The CAFC is very limited in resources having only 12 intake clients that handle only a small percentage of the more than 140,000 calls received in a year. While a new CAFC online self-reporting system has made reporting easier, there are still many victims that won't report online and that can't connect with the CAFC.

Impact of Mass Marketing Fraud

Mass marketing fraud (MMF) is an international problem that is only growing. MMF continues to pose a significant financial threat to Canadians and its businesses. Annual Canadian losses have steadily increased over the past ten years reaching more than \$74 million in 2014. The CAFC reports that this represents a 266.94% increase since 2004 when losses were slightly less than \$20 million. Reported losses represent only a fraction of the actual losses due to under-reporting. Some studies have shown that the CAFC receives less than 1% of actual complaints, suggesting the losses are in the billions of dollars.¹ For example, the Consumer Sentinel Network², a secure online database of consumer complaints run by the Federal Trade Commission in the United States received more than 1 million fraud related complaints in 2013 involving more than 1.5 billion in total reported dollar loss.³

Other consequences of mass marketing fraud include the erosion of consumer confidence in the marketplace, it diverts money from legitimate businesses, robs people of their hard-earned income, and the proceeds support other criminal activities.⁴ Let's not forget some victim reports identify threats of physical violence,

¹ Measuring Identity Fraud In Canada, 2008 consumer Survey by McMasters University

² Consumer Sentinel began in 1997 to collect fraud and identity theft complaints, the CSN has millions of complaints on various types of frauds, collecting data from multiple national and international law enforcement partners. <http://www.ftc.gov/sentinel/factsheet.pdf>

³ Federal Trade Commission, Consumer Sentinel Network Data Book for January. December 2013, Page 7. February 2014.

⁴ National Mass Marketing Fraud Strategy 2010

psychological concerns such as depression, and even suicide. The Financial Transactions and Reports Analysis Centre of Canada reported that fraud-related predicate offences (e.g. credit and debit card fraud, and telemarketing fraud) were more prevalent than drug-related cases in 2006-07.⁵

Mass Marketing Fraud results in substantial losses for businesses. In 2014, 566 Canadian businesses reported being victimized by MMF to the CAFC with a total of over \$26 Million in losses. The top scam affecting these businesses fall under wire frauds. The Business Executive Scam, the Financial Industry Wire Fraud and the Supplier Swindle all involve victims (businesses) wiring large amounts of money to foreign Countries. In 2014, more than \$22 million in losses have been associated to these scams alone.⁶

The Business Executive Scam involves potential victims receiving an email that appears to come from an executive within the company. Fraudster's either compromise a business email account or spoof the domain to create the appearance of legitimacy. A message will be emailed to the accounting department advising that the executive is working at home or off-site and the executive has identified an outstanding payment that needs to be made ASAP. The executive instructs that a payment be made, generally a large dollar amount is requested (e.g. in excess of \$100,000.00 to an identified person and bank account).

The Supplier Swindle Scam is targeting Canadian businesses that buy supplies from foreign wholesalers (e.g. China) and usually involves a spoofed e-mail informing the buyers of a change in payment arrangements. Email spoofing refers to email that appears to have originated from one source when it was actually sent from another source. The e-mail notice provides new banking details and requests that future payments be made to this "new" account.

Financial Industry Wire Frauds target Canadian financial institutions and investment brokers. Again, this scam involves victims receiving fraudulent email requests from what they believe to be an existing client. Unbeknownst to them, the email account of their client has been compromised. A request is sent by the fraudster to the financial institution/investment broker to have money transferred from "their" bank account usually to a foreign bank account. This scam is having a severe financial impact on the Canadian financial system.

⁵2008 Joint Threat Assessment on Mass Marketing Fraud Project Stop Payment Working Group - FinTRAC 2006-2007 annual report

⁶ National Criminal Intelligence Estimate on the Canadian Criminal Marketplace. Mass Marketing Fraud 2014.

Fraud groups operating and targeting citizens and businesses in Canada will only continue to cause severe financial and social harms in the future unless the Canadian and US partnerships grow and acquire more resources. MMF has been recognized as a serious and organized crime concern world-wide. In June 2010, the International Mass Marketing Fraud Working Group released a threat assessment that was prepared “to provide governments and the public with a current assessment of the nature and scope of the threat that mass-marketing fraud poses around the world.”⁷ The assessment concluded that:

“International mass-marketing fraud, in all of its constantly evolving forms, poses a serious threat to individuals, businesses, and financial institutions around the world. Fraud perpetrators exploit global financial systems, communications networks, and markets to defraud victims, launder illicit proceeds, conceal the locations from which they operate, and engage legitimate businesses as unwitting conspirators in their criminal activities. Organized crime groups increasingly initiate, facilitate, and profit from mass-marketing fraud, using persuasion and manipulation to steal substantial amounts of money, estimated in the tens of billions of dollars worldwide, from vulnerable consumers. Mass-marketing fraud groups are highly adaptive, altering schemes and techniques to evade law enforcement scrutiny and respond to consumer awareness of fraud schemes.”⁸

The CAFC has identified several Organized Crime Groups that are involved in MMF who are based in Canada and abroad, targeting the Canadian economy. FINTRAC data shows that 66% of MMF victims worldwide are residents of the United States and that Canada is still a major base for MMF targeting residents of other Countries, particularly the United States.⁹ Although success of cross-border partnerships between Canada and the US has made it more difficult for fraudsters to operate exclusively in Canada while targeting the U.S, this has forced fraudsters to develop a wider international scope and be more sophisticated in their approach. For instance, a story posted on MSN Money highlighted an online survey done in 2009 by PriceWaterhouseCoopers that placed Canada as #4 in the top 5 countries for fraud related crimes with Russia #1, South Africa #2, Kenya #3, and Mexico #5. This is still true in 2015 and even though West Africa (Nigeria) is a major base for MMF

⁷ International Mass Marketing Fraud Working Group, Mass Marketing Fraud: A Threat Assessment, June 2010

⁸ International Mass Marketing Fraud Working Group, Mass Marketing Fraud: A Threat Assessment, June 2010

⁹ Threat Assessment: Mass Marketing Fraud – the Canadian Perspective, November 2007, Royal Canadian Mounted Police (RCMP).

operations, bases and branches of operations are now growing in North America with similar trends in Europe, Asia, the Caribbean and Australia.

Outlook

Over the past 5 years there has been a push for awareness and education in the CAFC's role in reducing the impact of MMF. At the same time, governments and law enforcement services have all gone through budget cuts and restructuring which has limited the resources available to keep up with growing reporting at the CAFC. With more resources, the CAFC will be better equipped to answer the calls and gather the intelligence needed to support law enforcement, governments, businesses and consumers at identifying, disrupting and preventing the scams from happening in the first place; making Canada's economy stronger.

Canadian consumers and business are increasingly being targeted by MMF scams as Canada has often been seen as a safe haven for these activities. The CAFC assess that these sophisticated MMF scams will increase in the next 3 years, especially with the growing Internet usage and ecommerce in Canada.