

Chapter 5

Financial Fraud and Con Artistry on the Internet

Chapter Outline

I. Introduction

II. Online Fraud

A. Online fraud includes:

1. Online auction fraud—refers to fraudulent sales or purchases from Internet auction sites.
2. Purchasing of wives and prostitutes—involves the fraudulent activities of mail-order bride and escort services.
3. Nigerian 419 schemes—refers to a fraudulent activity whereby an individual claiming to be from a foreign country will promise a victim large sums of money for assisting them in secretly moving large sums of money.
4. Phishing schemes—fraudulent messages whereby a victim is asked to provide financial information and/or online banking passwords.

III. Online Auction Fraud

A. Online auctions have combined the availability of the Internet with the very nature of consumers to spend as little money as possible.

B. Today there are several online auction sites available to consumers, but perhaps none are more popular than eBay.

1. Established the standards for what consumers expect out of their online auction software.

C. How do online auctions work?

1. Select screen name—grant access to bidding and auction watch services.
2. Search through the items available for auction.
3. Find desired item—examine several important pieces of information
 - a. Seller's screen name—allow consumer to examine the seller's screen name.
 - b. How much longer the auction is scheduled to continue.
 - c. Rating of the seller.
4. Determine whether to bid on item or not.
5. Click submit button—takes customers to a screen where they enter the amount they are willing to pay for an item.
6. Check back to ensure no person has made a higher bid.
7. End of auction.
8. Notification of the winner via e-mail.
9. Arrangement of payment and shipping.
10. Seller mails the item off to winning bidder.

D. Auction fraud occurs when the consumer has paid for the merchandise but does not receive the materials.

A. The larger auction sites are aware of the problem of auction fraud, and many of the companies have begun offering advice and services related to handling instances of fraud.

1. Recommendations available from eBay.

- a. Attempt to persuade the seller to send the merchandise or a refund.
 - i. Contact seller using e-mail or telephone number.
 - ii. After 14 days, three approaches can be employed if problem is not solved: third-party dispute resolution, special protections offered by credit card companies, contacting shipping company.
- b. Notify eBay.
 - i. Buyer will file a fraud alert that will act as a formal complaint against the seller.
 - ii. Required as a precursor to filing protection claims for financial reimbursement.
- c. File a protection claim.
 - i. Help to determine how much, if any, financial reimbursement eBay will provide.
- d. Notify law enforcement.
 - i. Considered the final step.
 - ii. Involves notifying either a local law enforcement agency or a report with the United States Postal Inspection Service.
 - iii. Can also report the incident to the National Fraud Information Center.

B. Law Enforcement Involvement

1. In those cases in which the auction website does not provide credit card verification before items are allowed to be sold, there are several ways of approaching the investigation.
 - a. The first method involves ensuring that the individual's registration materials are in fact accurate and that the individual accused of failing to provide merchandise is in fact the individual guilty of the criminal act.
 - b. If material is found to be bogus, the next phase of the investigation will turn to the electronic communications between the buyer and seller.
 - i. Involves examining e-mails between buyer and seller.
 - c. Next, the investigator will attempt to trace the electronic communications back to their source.
 - a. With this information, the investigator may begin filing the necessary legal paperwork to visit the seller for further evidence of the criminal activity.
 - b. Because the alleged crime involved an Internet auction, it will be important to seize the computer to obtain Internet-related evidence stored on the seller's hard drive.
 - i. Evidence may consist of pictures of the item taken by the seller and uploaded to the auction site, communications between the buyer and the seller, or remnants of the auction web page stored on the seller's hard drive.
2. One major problem associated with buying and selling items online is that of

jurisdiction, because in many causes the buyer and seller do not live in the same state.

3. Many states have statutes that govern fraudulent selling practices under which online auction fraud cases normally qualify.

IV. Buying Wives and Prostitutes Online

- A. Prostitution has been labeled by many as “the world’s oldest profession.”
- B. In recent years the occupation has changed, as more mail-order bride services are maintaining online catalogs and allowing potential clients and brides to communicate via electronic communication.
- C. Individual who sell sexual activities are beginning to maintain a more prominent presence on the Internet, with many of these individuals charging exorbitant fees and referring to themselves as an escort rather than a prostitute.
- D. Mail-order bride services work by arranging “dates” for women in foreign countries who desire to meet and ultimately marry a male citizen of another country.
 1. Weddings are used as a means of ensuring that the women may stay in the United States and therefore leave a country that may be undesirable.
- E. Prostitutes and escorts use the Internet to arrange dates with men who will in turn pay them for their company.

F. Mail-Order Bride Services

1. Some people claim this procedure began centuries ago when settlers would write back to their homelands for a bride.
2. In 1980, American men began to express more interest in mail-order brides from areas such as the Philippines, Thailand, Japan, and China.
3. The Immigration and Naturalization Service is credited with reapplying the phrase “mail-order brides” to describe the women coming to the United States from around the world.
4. Asian women were most sought after by American men until the 1990s when the Soviet Union collapsed.
2. The development of the Internet revolutionized the way these mail-order service agencies conducted business.
 - a. No longer a need for printing and mailing expensive catalogues.
 - b. Interested men can visit websites and gain access to available women.
 - c. Websites began to provide services for women who are seeking mail-order husbands.
3. The term “mail-order bride” is considered extremely derogatory by those who are engaged in the business, and is especially frowned upon by the women who participate in the program.
4. How do these services operate?
 - a. Man will log onto one of the mail-order websites and begin looking through the online catalogue.
 - b. When a suitable young woman is located, the website will offer to provide contact information for that woman for a price.
 - c. If the young woman selected is interested, then she will provide the man with her personal contact information such as mailing and e-mail addresses.
 - d. When the woman responds and expresses interest, the two begin to communicate on a regular basis, and at some point the man may be encouraged to come to the country where the woman is to visit.

- e. If a man finds that the woman they have been conversing with is suitable, then he will begin the process of trying to bring the woman back to the United States.

G. Mail-Order Bride Fraud

1. There are several types of mail-order bride fraud.
 - a. Women obtaining money from men to visit, and communication stops.
 - b. Men being tricked repeatedly out of their money.
 - c. Men pretending to be women to solicit money from unsuspecting men.
2. Warning signs for mail-order bride scams.
 - a. Contact originated from a personals website where anyone can post an ad for free.
 - b. All contact is electronic in nature and contains a new picture of the woman.
 - c. Within five communications the woman has already indicated that she is in love with the man, yet she has never asked truly serious questions concerning finances or interests.
 - d. The woman will mention honesty and its importance numerous times.
 - e. From the very first communication, the woman will indicate that she is very poor and that her financial situation will not improve in the future.
 - f. Multiple women displaying the same picture on multiple websites but with different names.

H. Mail-Order Bride Agency Fraud

1. Several types of agency mail-order fraud are possible.
 - a. The first form involves fraudulent credit card transactions.
 - i. Being charged for services not requested.
 - ii. Being charged for canceled subscriptions.
 - b. The agency providing customers with false contact information.

I. Legal Issues Involving Mail-Order Brides

1. The Immigration and Naturalization Service appears to argue that the practice is nothing more than a means of providing non-citizen aliens with legal status in the United States through marriage to an American citizen.
2. There is a move toward a weak level of regulation in the industry, but the legislation is geared toward protecting the women once they arrive in America more than it is designed to protect the American men from the women.
 - a. The Violence Against Women Act of 2006 provides that men who wish to correspond with a mail-order bride must meet certain criteria.
 - i. Men must provide copies of their police records to the bridal agency.
 - ii. Men are also required to provide any information about past marriages and divorces, including why the marriage ended.
3. If the agency continues to make payments after the owner has discontinued service, there are means of correcting this problem through the credit card's issuer.
 - a. This process can be time-consuming and difficult because the fraudulent activity has taken place in another country.
4. The best way to solve the problem of mail-order bride fraud is to take proper care in the first place.

5. Individuals, who have been defrauded through one of the aforementioned mail-order bride scams do have the option of reporting the fraudulent activity to various online reporting sites, but these websites cannot result in reimbursement of money or the removal of the fraudulent agency from the Internet.

V. Prostitution Online

- A. In the past men were able to contact prostitutes via one of several ways.
 1. Reference by friends.
 2. Contact via the street.
 3. Interaction through brothels.
- B. Men were exposed to a variety of fraudulent activities.
 1. Paying for women that did not exist.
 2. Paying for women who would rob them during the transaction.
- C. The majority of prostitution operations, both online and in the physical world, appear to still involve females.
- D. The term “online prostitution” refers to the process of soliciting sexual acts via the Internet.
- E. The Internet is used in the facilitation of prostitution in two ways.
 1. The use of the Internet as means of communication between “johns.”
 2. The use of electronic communications and websites to facilitate meetings between prostitutes and customers.
- F. Use of Internet by Customers
 1. In recent years, a significant number of message boards related to prostitution have been developed.
 2. The United Kingdom has one of the largest and best-known message board services dealing with “punters” (the UK equivalent of “johns”) and their activities, the “punternet.”
 - a. Individuals post messages concerning their encounters with prostitutes across the United Kingdom regarding date and time of encounters, location, description of the woman, and description of the sexual act.
 3. Here in the United States there are similar websites, although none appear to be as well known as that of the punternet.
 - a. Provide information on how to find prostitutes, how to protect oneself from being robbed by a prostitute, and the average rate for a prostitute’s services.
 4. These message boards can provide a wealth of intelligence for law enforcement agencies, but there are no current agencies that check such boards for information related to trends in prostitution activities within their jurisdiction.
- G. The Internet and Prostitution
 1. Historically, prostitutes worked in either brothels or via the act of street walking.
 - a. When law enforcement began to crack down on openly operated brothels, many of these agencies attempted a new strategy; these agencies changed their operations from brothels to escort services.
 - i. Difference between prostitutes and escorts is that escorts are not required to engage in sexual intercourse.
 2. Escort services began advertising in telephone books and classified ads.

- a. During the early 1990s, many law enforcement agencies were able to slow down the advertising for these agencies by convincing advertisers that the agencies were fronts for prostitution.
- 3. By the mid-1990s, more and more of these escort agencies were advertising on the Internet and maintaining their own websites discussing their activities.
- 4. The Internet changed the way prostitution operations engage in business by allowing increasingly more women to operate on their websites, thus abandoning the use of escort agencies and allowing the escort to keep all funds from their activities.
- 5. What type of women are advertising themselves on online escort sites?
 - a. Generally, former playmates, penthouse pets, pornography stars, and other women who are out to make money.
 - i. Women will on average make \$200-\$2,000 per hour.
 - b. There are some former streetwalkers who have made the transition from street-level prostitute to high-dollar escort.
 - i. For many women, the most important consideration is that a pimp is no longer necessary when the Internet is used to advertise services.
- 6. Problems with online prostitution/escorts
 - a. Several websites will take credit card information and never provide a return service.
 - b. The clients have been robbed when they return from the shower and their wallets, car keys, and/or clothes are missing.
 - c. An individual may schedule a date with one of these women on the basis of their website, only to discover when the woman arrives that she is not who she appeared to be on the Internet.
- 7. Many of the law enforcement investigations into online prostitution involve having officers go online and make “dates” with the escorts.
 - a. Occasionally, an escort may be operating from outside the jurisdiction of an agency, in which case the agency will:
 - i. Contact a law enforcement agency within the jurisdiction of the escort’s operation.
 - ii. Inquire as to whether the escort is a “circuit girl,” who travels around following large-scale sporting events or national events.

VI. Nigerian 419 Schemes—Fraud Schemes Based on Greed

- A. Focuses on a person’s desire to make easy money.
- B. This form of fraud involves a victim receiving a letter or e-mail (mostly e-mails as we will discuss) in which the sender will claim to have gained access to a large sum of money.
- C. For the victim’s help, the sender will promise a significant portion of the money.
- D. These scam operations operate on the belief that the people contacted will be willing to take a risk when there is even a slight possibility that they can make a large sum of money with minimal work.
- E. Nigerian 419 scams have been around long before the Internet and electronic communications became commonplace, but the Internet have impact the number of these scams.
 - 1. The use of e-mail potential scammers can gain access to infinitely more potential victims with minimal costs.

2. Scams can take many different forms.
 - a. Scheme whereby money has been discovered but needs to be cleaned of some form of ink.
 - b. An e-mail or letter in which the scammer will claim to have discovered a large sum of money hidden away in a foreign bank.
 - F. Greed oftentimes causes a victim to proceed further into the scam even if he or she suspects something is wrong.
 - G. The majority of 419 schemes involve electronic communications and there is no face-to-face contact, but there are some schemes that require the victim and the scammer to meet.
- VII. Phishing—Seeking Out Passwords and Financial Information
- A. Phishing refers to fraudulent messages or Internet pop-up screens that attempt to obtain a user's Internet passwords, usernames, bank account information, etc.
 - B. Potential victims can be exposed to phishing scams in a number of ways.
 1. The use of an Internet pop-up.
 - a. The pop-up screen is the Internet browser screen that opens without the user selecting any link.
 - b. If the user selects the link, or enlarges the pop-up screen and begins viewing that page, then the user may be taken to a false website that appears to be a legitimate website the user believes he or she is visiting.
 - c. This is a popular method of obtaining credit card numbers, but false links that lead to users to other websites could also lead to a person having their social networking accounts or web e-mail accounts compromised.
 2. The direct use of e-mail
 - a. Scammers will send out a mass e-mail claiming to be from a potential victim's bank and require the potential victim to provide his or her bank account number and account access information.
 - b. The scammer will then use that information to withdraw the money from the victim's bank account.
 - C. While phishing is becoming a more commonly encountered criminal activity, there are still very few statutes to specifically criminalize phishing.
 - D. Over the last several years there has been a push for federal legislation concerning phishing, but the legislation has thus far been unsuccessful in receiving enough support to be passed; several states have criminalized phishing.
- VIII. Conclusion

Key Terms

Circuit girl: An escort who travels around the country and takes appointments at each stop.

Escorts (or prostitutes): Individuals who may use the Internet to arrange dates with men who will in turn pay them for their company.

Full-service: A term generally used to describe women who will engage in complete sexual activity.

Johns: Those individuals who solicit the services of prostitutes.

Online auction fraud: False sales or purchases from Internet auction sites.

Online dating services: Websites that offer services ranging from general dating services to very specific criteria-based dating arrangements.

Online prostitution: The process of soliciting sexual acts via the Internet.

Pop-up screen: An Internet browser screen that opens without the user selecting any link.

Mail-order bride: Women who come to the United States from around the world to marry United State citizens.

Mail-order bride services: Agencies that work by arranging “dates” for women in foreign countries who desire to meet and ultimately marry a male citizen of another country.

Nigerian 419 scams: Fraudulent activity whereby individuals claiming to be from a foreign country will promise a victim large sums of money for assisting them in secretly moving large sums of money.

Phishing: The fraudulent messages or Internet pop-up screens that attempt to obtain a user’s Internet passwords, usernames, bank account information, etc.

Streetwalking: Prostitution activities that required women to walk up and down avenues in the hopes of meeting men who were looking for companionship.

Sugar daddy: An individual who takes financial care of another in exchange for their companionship.