

PROJECT PHONEBUSTERS

COMBATING TELEMARKETING FRAUD THROUGH PARTNERSHIPS

ONTARIO PROVINCIAL POLICE, ONTARIO, CANADA, 1995

- THE PROBLEM:** Telemarketing fraud deceives consumers into purchasing goods for a fee to obtain a so-called valuable prize worth more than the fee. Additionally, credit card numbers can also become the primary target of the fraudulent scheme through additional unauthorized charges to the cardholder's account.
- ANALYSIS:** An investigation revealed that 99% of the suspect telemarketing companies were operating out of Montreal. Organized criminal elements were controlling the multimillion-dollar fraud. The lack of a central location for complaints prohibited an accurate assessment of the problem and prevented effective responses by police and government. As a result, suspect telemarketers operated with little risk of being detected or prosecuted.
- RESPONSE:** "Project Phonebusters" was established to combat telemarketing fraud in Canada. The Ontario Provincial police formed partnerships with other government agencies and established a centralized database in order to facilitate the detection and prosecution of telemarketing fraud.
- ASSESSMENT:** As a result of "Phonebusters" and its partners proactively and tactical approach, the losses due to telemarketing fraud were reduced to fifty million dollars in 1994 and thirty million dollars in 1995, compared to one hundred million dollars in 1991 and 1992.
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SCANNING

Telemarketing fraud, defined broadly includes all schemes where a telephone communication is the principal component used to defraud the public. The unscrupulous telemarketers' pitch, the most common of which—the "Car Pitch," the "Cash Pitch," and the "Cheap Gift Pitch"—are all attempts to deceive or dupe the consumer into purchasing goods for a fee, to obtain a so called valuable prize worth much more than the fee.

The telephone is used by the unseen salesperson who may be using many different aliases to develop the victim's confidence, by using various techniques to purchase a product he

usually would not otherwise have purchased. As one fraudulent telemarketer testified in the Congressional Hearings in the U.S. on the "The Scourge of Telemarketing Fraud: What Can be Done Against It," the telephone allows one "to paint a picture or an illusion in the mind of a client that is not factual," something hard to do in a face-to-face meeting, and to reach many more people than can be done in person.

The promised prize or item is never delivered or is substantially inferior to that which has been promised. Most of the fraudulent schemes are designed to closely resemble legitimate business transactions, thereby making successful detection and prosecution more difficult.

In addition, credit card numbers can also become the primary target of the fraudulent scheme through additional unauthorized charges to the cardholder's account (for no items or services purchased). The merchant bank, not the consumer, is held responsible for these unauthorized charges. As a result of these losses, the banks have become more careful in accepting merchant accounts from telemarketers..

The Anti-Rackets Branch of the Ontario Provincial Police in North Bay began an investigation into telemarketing fraud in early 1991. Detective Staff Sergeant Barry Elliott became interested in a few complaints and attempted to do some investigative follow-up. It became apparent that little work was being done and the little that was being attempted was simplistic and ineffective.

Prior to "Phonebusters, Phase I," complaints received by police were given low priority or treated as civil, because the perpetrators operate from another province, which tends to discourage any in-depth investigations. The police work involved usually consisted of a long distance call to the company where someone would pass himself off as the manager or owner and would generally satisfy the police by explaining that the telemarketer in question would be fired or he was no longer with the company because he was not sticking to the sales pitch supplied by the company and that this company was indeed legitimate. The officer would generally not go any further with the investigation..

ANALYSIS

In 1991 Elliott decided to conduct a six-month country wide investigation by central sourcing all telemarketing complaints across Canada to one location in North Bay. This analysis revealed that 99% of the suspect telemarketing companies were operating out of Montreal, Quebec and what appeared to be isolated fraud, was in fact a multi-million dollar fraud controlled by an organized criminal element.

The previous lack of a central location for complaints prohibited an accurate assessment of

the problem and prevented a cohesive approach by police and government. These factors allowed the suspect telemarketers to operate with little risk of being detected or prosecuted. Because of "Phonebusters," the Police now have a proven coordinated approach both tactically and proactively to deal with this complex crime.

The question arose as to the possibility of investigating these complaints as a fraud contrary to the Criminal Code of Canada and convicting the owners, not the companies, of the crime. It is believed that this type of enforcement would be an effective deterrent for these individuals and also deter others from operating these boiler rooms in the future.

It was Elliott's opinion that a successful prosecution could be obtained but it was first necessary to gather as many complaints as possible into one central location where they could then be analyzed to determine the complexity of the problem.

RESPONSE

Project "Phonebusters" was established in January 1993, to combat telemarketing fraud in Canada. The Project is a joint effort, combining the financial and human resources of the Ontario Provincial Police, which co-ordinates the project, the Royal Canadian Mounted Police, the Federal Department of Industry Canada, the Ontario Ministry of Consumer and Commercial Relations, the Alberta Ministry of Housing and Municipal Affairs, the Canadian Bankers Association, the Canadian Courier Association and the Canadian Better Business Bureaus. The goal of this investigation is to centralize all complaints and prosecute key individuals and companies involved in telemarketing fraud under the Criminal Code.

The information that "Project Phonebusters" collects is based on a system called central sourcing. The telemarketing complaints are all forwarded by federal, provincial, police and private agencies, either directly or indirectly to North Bay. These complaints are analyzed and the information entered into a computer Q & A database.

The up-to-date information on new frauds or

company activity, along with complaint information, is quickly disseminated to the appropriate agencies and the necessary action is usually taken to block the companies ability to operate. Thus "Project Phonebusters" can continue to complete prosecution and arrest packages and also continue to reduce the amount of victims who are contacted by fraudulent telemarketers and continue to drive the telemarketing companies income downward.

ASSESSMENT

It is estimated that less than 5% of the victims in 1994 and 10% in 1995 actually complain mainly because of embarrassment. The investigation revealed that the fraud peaked in 1991 and 1992 at one hundred (100) million per annum. As a result of "Phonebusters" and its partners proactively and tactical approach, the fraud was reduced to fifty (50) million in 1994 and approximately thirty (30) million dollar loss in 1995.

The main reason for the increase in complaints in 1995 is partly due to the new addition of Better Business Bureaus (BBBs) across Canada, as a new partner. The BBBs forward all telemarketing complaints directly to "Phonebusters." Other reasons for the increase is due to the heightened awareness of "Phonebusters" to Police Agencies across the country, and increased public awareness of telemarketing fraud through community policing and other programs some of which were initiated by some of the partners within "Project Phonebusters."

As well, articles on telemarketing fraud which have been published in almost every newspaper across the country, including radio talk shows, television news stories and consumer protection programs such as Fifth Estate and Market Place in Canada and 48 Hours, Dateline and Eye-To-Eye in the United States.

"Phonebusters" liaison with the Canadian Bankers Association and the corporate and credit card security members, and their constant monitoring of telemarketers merchant accounts has nearly eliminated credit card as the primary method of payment. This liaison has also led to "Phonebusters" being able to provide

of being used to launder cheques or money orders which have been obtained by fraud and converted into cash.

The CBA gather statistics on all types of credit card fraud. Their statistics indicate losses of approximately three to five million dollars in 1992, five hundred thousand in 1993 and less than two hundred and fifty thousand in 1994. This reflects a direct result of "Phonebusters" liaison with corporate and credit card security members of the Canadian Bankers Association. "Phonebusters" and the CBA has removed credit card as the primary method of payment and nearly eliminated merchant credit card fraud in this area.

Complaints are now forwarded to Canadian Bankers Members Corporate Security Sections who complete a third party investigation and if deemed necessary, the closure of those suspected accounts. This joint action and cooperation further hinders suspected telemarketing companies from being able to operate which in turn reduces gross sales and the number of victims per annum.

Due to the large amount of fraudulent sales that these telemarketing companies gross, the banks are further put at risk in evidence involving business chequing accounts that are suspected that loans are issued based on this fraudulently obtained collateral. As a result when the activity is discovered to be fraudulent, the bank may be caught with unpaid loans with limited financial recourse and suffer losses.

"Phonebusters" has continued to align itself with strategic partners across the country including the addition of the BBBs and the Canadian Courier Association in 1994.

In 1995 Phonebusters has already taken steps to align itself with Canada Post, Canadian Telephone Association (STENTOR) and the Federal Trade Commission and the Better Business Bureau in the United States.

INVESTIGATION UPDATE

Phase I

Phase I of "Project Phonebusters" targeted: suspected telemarketing group who was

operating out of the City of Montreal, and surrounding area as of January 1993.

This group was named by the investigators as Dorsey Group. Between November 1993 and January 1995, seven arrest warrants were issued based on charges to defraud the public against seven members of the above mentioned group. These charges were based on approximate two thousand victims across Canada who collectively lost approximately two million dollars. This group mainly used the car pitch.

To date, results of the seven warrants stand as follows:

- One sentenced to probation for 24 months upon agreeing to testify against others.
- Two are set for pre-trial meeting on August 22, 1995. Three are to set a date in June 1995.
- One outstanding Arrest Warrant as of March 31, 1995.

As a result of the arrest of one of the members, an agreement was made for his release in exchange for information he provided to Montreal Urban Police. This information has resulted in the arrest and charges of three male parties in Montreal for the first degree murder of a male victim which occurred in the summer of 1994.

Phase II

Phase II of "Project Phonebusters," which commenced in April 1994, targeted three groups. Between February 1995 and June 1995, 8 persons were charged with 16 criminal offences. "Phonebusters" tactical approach has changed, we will be arresting all persons involved, from the receptionist to the owners, to create further paranoia and concern within telemarketing business.

As a result approximately another 20 persons associated to these companies will be charged this summer of 1995.

Group I of Phase II, Pinsky/Staszower is associated to approximately 30 telemarketing

companies. The two owner/operators of the group were arrested February 24, 1995 and released on \$20,000 cash bail. A pre-trial meeting was held on May 24, 1995. A trial date is expected to be set in March 1996 upon completion of the investigation:

Across Canada approximately five to seven thousand victims have been defrauded of approximately five to seven million dollars since January 1993.

The victims all have the same common complaint, they were promised over the phone that they had won a major prize and had to send money to purchase a product in order to qualify for the prize.

Group II of Phase II, McMahon is associated to 6 telemarketing companies. The leader of the group was arrested and released on April 26, 1995. A trial date is expected to be set in March 1995. Victims have been defrauded for approximately one million dollars.

Group III of Phase II, Langman is known to own/operate approximately 19 telemarketing companies across Canada and the U.S., five thousand victims have been defrauded of approximately five million dollars.

Phase III

Phase III which commenced in April 1995 anticipated in April 1996 involves two major groups for arrests

Rost Group I and Artzy Group II are associated to approximately 20 telemarketing companies in the Montreal area each. These groups are suspected of defrauding approximately ten thousand Canadian victims of an approximate ten million dollars between 1993 and 1995.

CONCLUSION AND SUMMARY OF INVESTIGATIONAL OBJECTIVES

The objectives of "Phonebusters" was to reduce the annual dollar loss both tactically and proactively throughout Canada.

"Phonebusters" has been able to solve the jurisdiction issues regarding the prosecution.

“Phonebusters” has established an information network in which it can access and send information to strategically aligned partners which further disrupts the suspect(s) company(ies) ability to operate.

“Phonebusters” provides effective and cost efficient services to the Canadian public by avoiding duplication and providing one stop service for complaints.

In June 1995 the National Fraud Information Centre and "Phonebusters" agreed to cooperate and all U.S. complaints regarding Canadian based telemarketing companies will be forwarded to North Bay from Washington D.C. daily. As well, "Phonebusters" expects to align itself with all members of the Better Business Bureau across the United States for the for the same purpose.

In conclusion, the central sourcing and immediate analysis of complaint data combined with proactive and tactical approach has proven to be the answer in solving the telemarketing problem on a national and international level.