



MASS MARKETING FRAUD: MONEY LAUNDERING METHODS AND TECHNIQUES

FINTRAC Typologies and Trends Report — January 2015

A world map in light blue with various icons representing financial crime. Icons include a laptop with a skull and crossbones, a hand holding a dollar bill, a stack of money, a document with a dollar sign, a document with a 'FAKE' stamp, and a document with a dollar sign and a skull and crossbones.

MASS MARKETING FRAUD: MONEY LAUNDERING METHODS AND TECHNIQUES

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- Provide information on the nature and scope of money laundering and/or terrorist activity financing in Canada and abroad;
- Provide research findings on trends and developments in money laundering and/or terrorist activity financing;
- Report on the effectiveness of anti-money laundering and counter terrorist financing measures and help develop better detection and deterrence methods.

Unless indicated otherwise, the analyses and observations in this report are based on the analysis of financial transaction reports, and voluntary information reports available to FINTRAC. Suspicion of mass marketing fraud activities involving persons or organizations is based on information from third parties (e.g., government organizations or private sector financial entities). FINTRAC does not have an investigative mandate allowing it to corroborate the suspicions expressed by third parties.

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HIGHLIGHTS

- Mass marketing fraud is a crime that results in substantial losses to individuals in Canada and in many other countries. FINTRAC's data indicates that certain categories of mass marketing fraud also results in substantial losses for businesses;
- Most mass marketing fraud observed by FINTRAC is based in Ontario and Quebec. The analysis also revealed that in nearly all cases, the mass marketing fraud operated primarily from an urban area. These observations are consistent with the Canadian Anti Fraud Centre's statistics which indicates that Ontario, and primarily the Greater Toronto Area, is the most important area of mass marketing fraud operations in Canada. FINTRAC's data indicates that United States residents are a significant target of mass marketing fraud operations based in Canada;
- Mass marketing fraud operations make considerable use of businesses to launder illicit proceeds. Businesses are involved in nearly all cases where suspected mass marketing fraud perpetrators show a minimum degree of sophistication;
- Businesses in the automotive sector, one of the main sectors suspected to be used to launder the proceeds of mass marketing fraud, have used trade-based money laundering techniques to launder funds. It has also been observed that considerable use appears to be made of money services businesses, not only to receive funds from victims, but to launder mass marketing fraud proceeds.

REPORT OBJECTIVE

This Typologies and Trends report aims to identify techniques and methods that are used to launder the proceeds of mass marketing fraud, based on an analysis of voluntary information records and financial transaction reports included in FINTRAC disclosures to Canadian police services and foreign financial intelligence units.¹ While the identified money laundering techniques and methods described in this report are based solely on FINTRAC's data on suspected mass marketing fraud, and therefore do not constitute a comprehensive list, the report is intended to support anti-money laundering initiatives by law enforcement and reporting entities, and contributes to informing Canadians on the nature and extent of money laundering in Canada.

METHODOLOGY

This report is based on an analysis of information voluntarily provided by law enforcement agencies and financial transaction reports submitted to the Centre, drawn from a sample of 67 cases disclosed by FINTRAC between 2005–06 and 2011–12.² Approximately 7,000 electronic fund transfers reports, 1,600 large cash transaction reports, and 600 suspicious transaction reports and attempted suspicious transaction reports were analysed.³ Electronic funds transfer reports and large cash transaction reports are submitted to FINTRAC when the amounts equal or exceed \$10,000 in a 24-hour period; suspicious transaction reports are submitted to FINTRAC when the transaction(s), in any amount, are deemed suspicious by the reporting entity.

¹ For the purpose of this report all references to mass marketing fraud, related victims and money laundering are based on the investigations of foreign and domestic law enforcement agencies. Information regarding these investigations and related suspicions have been voluntarily provided to FINTRAC by Canadian police services and foreign financial intelligence units (voluntary information records).

² Financial transaction reports analysed by FINTRAC include:

- Large cash transaction reports (LCTRs): Reporting entities must report all large cash transactions including the receipt of an amount in cash of \$10,000 or more within a 24-hour period.
- Suspicious transaction reports (STRs) and attempted suspicious transaction reports (A-STRs): Reporting entities have to report completed or attempted transactions if there are reasonable grounds to suspect that the transactions are related to the commission or attempted commission of a money laundering offence or a terrorist activity financing offence.
- Electronic fund transfers (EFTs): Wire transfers of \$10,000 or more that reporting entities receive from abroad or send outside Canada.

³ Financial transactions reported to FINTRAC are mainly related to electronic funds transfers and cash transactions. Financial transactions involving other instruments, such as cheques and bank drafts, are reported to FINTRAC only if they are found to be suspicious by reporting entities.

The analysis focused primarily on describing the techniques and methods used to launder the proceeds of mass marketing fraud. It should be noted that this report primarily uses the Canadian Anti Fraud Centre's terminology to describe the categories of mass marketing fraud (see Appendix A).⁴ However, certain categories of mass marketing fraud (such as "job," "loan" and "sale of merchandise by complainant") were not well represented in the sample. Therefore, these categories of mass marketing fraud were included under the "other" category, in the same way that the "merchandise" and "services" categories were combined to create the "merchandise and services" category. This report does not address investment fraud, which is included in some definitions of mass marketing fraud: money laundering associated with investment fraud has been addressed in a previous FINTRAC report on money laundering in the Canadian securities sector.⁵

MASS MARKETING FRAUD IN CANADA

Mass marketing fraud is defined as fraud committed through mass media communications, such as the Internet, telephone, mail, fax or print. In Canada, the *Competition Act* prohibits materially false or misleading representations in the promotion of a product or a business interest during person-to-person telephone calls.

Telemarketers are also prohibited from engaging in certain practices, including requiring payment in advance as a condition for receiving a prize that has been won in a contest or game; failing to provide adequate and fair disclosure of the number and value of "prizes"; offering a "gift" as an inducement to buy another product, without fairly disclosing the value of the gift; and offering a product at a grossly inflated price and requiring payment in advance.

Substantial financial losses in Canada are caused by mass marketing fraud. According to the Canadian Anti-Fraud Centre, total reported losses in 2012 were more than \$76 million.⁶ While the number of mass marketing fraud complaints and victims is decreasing, the value of reported losses is increasing both in Canada and abroad. Reported losses represent a fraction of the actual losses, because mass marketing fraud is under reported. In a 2008 publication, the Competition Bureau of Canada estimated that 95% of victims of mass marketing fraud do not report their losses to authorities.⁷

While many mass marketing fraud victims are Canadian residents, Canada is also a major base for mass marketing fraud targeting residents of other countries, particularly residents of the United States.⁸ The cultural and economic integration of both countries as well as geographic proximity are factors that contribute to the selection of Canada as a base for targeting United States residents.⁹

⁴ A single category of mass marketing fraud was used to identify each case in the sample.

⁵ "Money Laundering Trends and Typologies in the Canadian Securities Sector." April, 2013. <http://www.fintrac-canafe.gc.ca/publications/typologies/2013-04-eng.asp>

⁶ Mass Marketing Fraud and ID Theft Activities, Canadian Anti-Fraud Centre Criminal Intelligence Analytical Unit, Annual Statistical Report, 2012.

⁷ FACT: Fraud Awareness for Commercial Targets, 2008, Competition Bureau of Canada.

⁸ Threat Assessment: Mass-Marketing Fraud – The Canadian Perspective, November 2007, Royal Canadian Mounted Police (RCMP).

⁹ Standing on Guard Canadian Identity: Globalization and Continental Integration, The Saskatchewan Institute of Public Policy, Raymond B. Blake June, 2004

INTERNATIONAL PERSPECTIVES ON MASS MARKETING FRAUD

The victims of mass marketing fraud are mostly found in North American and other Western countries. However, mass marketing fraud is becoming increasingly international because the growing middle class in several parts of the world is creating an expanding pool of potential victims. While West Africa, particularly Nigeria, continues to be a major base of mass marketing fraud operations, fraud is becoming increasingly international in scope, given that there are now bases (or branches) of operations in North America, Europe, Asia, the Caribbean and Australia.¹⁰

As in Canada, it is difficult to estimate the international financial losses from mass marketing fraud because a large proportion of cases are not reported to the authorities. A 2006 survey conducted by the Office of Fair Trading in the United Kingdom found that approximately 6.5% of UK adults, (3.2 million people) are the victims of mass marketing fraud each year, and that the total amount of their losses was more than \$7 billion dollars. The survey also revealed that less than 5% of mass marketing fraud cases were reported to the authorities.¹¹ The Australian Bureau of Statistics reported in a 2008 study that nearly 5% of the population had been the victim of fraud in the previous year, for a total loss of nearly \$900 million dollars.¹² A 2005 survey conducted by the United States Federal Trade Commission found that nearly 30 million Americans had been the victim of various types of consumer fraud.¹³

CATEGORIES OF MASS MARKETING FRAUD

“Merchandise and services” mass marketing fraud

The merchandise category of mass marketing fraud includes any product purchased through a classified ad, over the Internet, on an Internet auction site, by catalogue, by mail order, which was never received, was of inferior value, or was not as advertised. Similarly, in the case of services, it includes any false, deceptive or misleading promotion or solicitation for services such as telecommunications, Internet, financial services, medical services or utilities. Additionally, this category may include offers to purchase extended warranties, insurance and sales services.

While a large number of merchandise and services scams can be identified in the cases disclosed by FINTRAC, a study of the financial transaction reports and law enforcement information available to FINTRAC revealed that a large portion of the disclosed amounts related to this type of mass marketing fraud involved scams specifically targeting businesses.¹⁴ In these cases, mass marketing fraud perpetrators targeted small and medium sized businesses (Canadian and foreign) by using boiler room strategies (questionable outbound call centres) to pressure victims into purchasing supplies that were overbilled or settling fictitious overdue accounts.¹⁵ As a general rule, the perpetrators of this type of mass marketing fraud operated sophisticated businesses that were set up to resemble legitimate businesses. These businesses had a head office and website and advertised in the Yellow Pages.¹⁶

¹⁰ *Mass-Marketing Fraud: A Threat Assessment*, International Mass-Marketing Fraud Working Group, June 2010.

¹¹ Office of Fair Trading, *Research on impact of mass-marketed scams: A summary of research into the impact of scams on UK consumers*, December 2007.

¹² Australian Bureau of Statistics, *Personal Fraud*, 2007.

¹³ US Federal Trade Commission, *Consumer Sentinel Network Data Book for January-December 2009*.

¹⁴ The observation that major losses are incurred by businesses may be related to the type of voluntary information record submitted to FINTRAC by law enforcement agencies. Large-scale mass marketing fraud operations (identified in the analysed data) tend to include activities targeting businesses.

¹⁵ A boiler room refers to an outbound call centre which uses deceptive, misleading or fraudulent sales tactics.

¹⁶ In the context of this report, a business is defined as an actual or fictitious enterprise that is controlled by an individual who is identified in a voluntary information record concerning mass marketing fraud and whose activities may partially or fully consist in perpetrating mass marketing fraud and/or laundering the proceeds of fraud.

From the perspective of reporting entities, the proceeds from this type of mass marketing fraud likely appear legitimate (much more so than for other types of mass marketing fraud), as they appear to be transactions between two commercial entities. Information from law enforcement, as well as information included in suspicious transaction and electronic funds transfer reports indicated that the funds obtained from victimized businesses are mainly in the form of cheques, credit card payments and electronic funds transfers, which corresponds to what may be expected in the case of a fraud primarily targeting businesses. Suspected perpetrators of this type of mass marketing fraud made very little use of money services businesses and cash; the financial transaction reports available to FINTRAC show that the perpetrators made greater use of commercial bank accounts, compared to other categories of mass marketing fraud, which is expected in the context of transactions between businesses.

Approximately 70% of electronic funds transfers to Canada associated with this category of fraud came from the United States, while the remainder came mainly from Europe and the Caribbean. The United States was the destination for over 50% of mass marketing fraud-related electronic funds transfers from Canada, while European countries accounted for most of the rest.

“Prize” category of mass marketing fraud

The prize category of mass marketing fraud includes any false, deceptive or misleading solicitation advising people that they have won or have a chance to win something, but are required to make a purchase or pay an advance fee, such as taxes, to receive the prize. Based on the financial transaction reports and the voluntary information records available to FINTRAC, it is possible to identify two sub categories of this type of fraud. The “sweepstakes fraud” sub category consists of

sending fraudulent mass mailings that target a large number of consumers stating that the recipient must pay a relatively small sum of money to collect a prize. The “tax on lottery winnings” sub category targets a smaller number of potential victims, but attempts to extract larger sums of money.

Information from law enforcement and some financial transaction reports show that the proceeds of the “sweepstakes fraud”, usually in amounts under \$100, are sent to the suspected fraud perpetrators mainly in the form of cheques, while the proceeds of “tax on lottery winnings,” varying from a few hundred to tens of thousands of dollars, are sent via electronic funds transfers to bank accounts or money service businesses. Law enforcement information and some financial transaction reports show that victims of both of these sub-categories usually reside in the United States or Europe. Victims of “tax on lottery winnings” appear to be mostly seniors, while victims of the “sweepstakes fraud” appear to be found in a broader range of population segments.

Nearly 60% of electronic funds transfers to Canada associated with this category of mass marketing fraud came from European countries, while only 20% came from the United States. The United States was the destination of 70% of mass marketing fraud-related electronic funds transfers from Canada, with Europeans and Asian countries accounting for most of the remainder.

“Emergency” mass marketing fraud

The “emergency” category of mass marketing fraud, which is sometimes referred to as the “Grandparent Scam,” includes any solicitation from someone claiming to be a friend or family member saying that he or she is in some kind of trouble. Usually he or she has been arrested, involved in a car accident or trapped in a foreign country, and needs money immediately for bail, medical fees or a ticket home.

Information provided to FINTRAC by law enforcement, as well as certain financial transaction reports show that the “emergency” mass marketing fraud primarily targets the elderly and usually involves smaller amounts of money varying from a few hundred to a few thousand dollars. This category of mass marketing fraud makes considerable use of money service businesses to receive electronic funds transfers from victims, but also uses banks. Large cash transaction reports and suspicious transaction reports show that when received through money service businesses, the proceeds of the fraud are mainly withdrawn as cash and later deposited into business or personal accounts.

The use of online payment service providers to process suspected fraud proceeds is observed more frequently in “emergency” mass marketing fraud schemes.¹⁷ This seems consistent with the modus operandi of “emergency” mass marketing fraud, where the victims are led to believe that they are sending money directly to a “loved one” in distress or to a person who is supposed to help this “loved one.”

Approximately 30% of “emergency” mass marketing fraud related electronic funds transfers to Canada come from the Middle East, 40% from Europe, and 15% from the United States. The United States was the destination of 60% of electronic funds transfers from Canada, while Asian countries accounted for 30%.

“Foreign money offer” mass marketing fraud

“Foreign money offer” mass marketing fraud includes any solicitation requesting assistance to transfer a large sum of money from another

country. The solicitation may also come from an individual claiming to be a lawyer notifying the victim of an inheritance of a sum of money. The victims must pay one or more advance fees before the money can be released. The money or inheritance is fictitious and the victim never receives the money promised. This is sometimes referred to as Nigerian, 419 or West African fraud.

Information from law enforcement and some financial transaction reports show that “foreign money offer” mass marketing fraud usually involves sums of money varying from a few thousand to tens of thousands of dollars with victims being found in a broad range of population segments. “Foreign money offer” mass marketing fraud mainly uses electronic funds transfers through money service businesses and banks to receive funds from victims.

Approximately 30% of “foreign money offer” mass marketing fraud-related electronic funds transfers to Canada came from the United States, 25% from Japan and 20% from European countries. The United States was the destination of approximately 30% of EFTs from Canada, Asian countries accounted for 30%, and Middle Eastern countries accounted for 30%.

Analysis indicates that nearly 80% of the categories of mass marketing fraud identified fell into the “prize,” “merchandise and services” and “foreign money offer” categories.¹⁸ The categories of mass marketing fraud were identified primarily on the basis of the information included in voluntary information records from law enforcement, although in some cases, suspicious transaction reports were also used.

¹⁷ Online payment service providers are internet-based services providing electronic venues for the transfer and/or the settling of financial value between two or more exchanging parties.

¹⁸ Each case in the sample was attributed to a single mass marketing fraud category (mass marketing fraud categories are mutually exclusive).

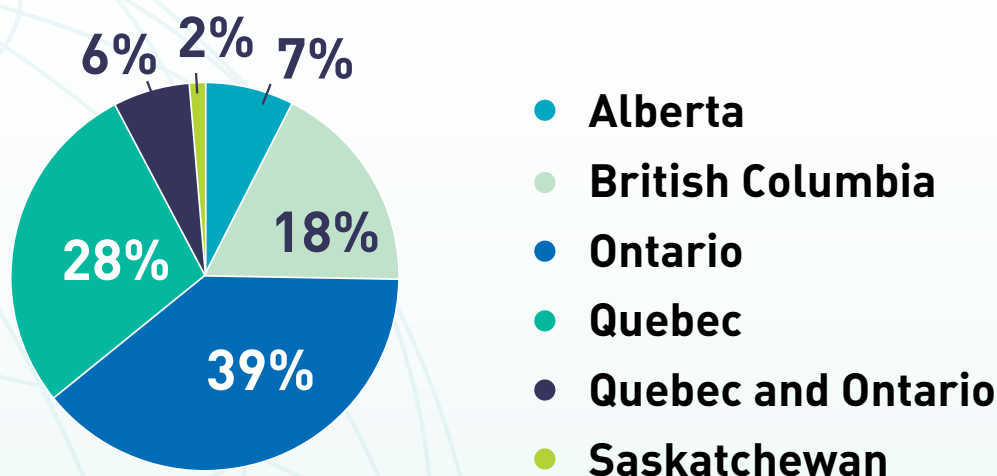
FINTRAC PERSPECTIVE ON MASS MARKETING FRAUD

Locations of Canadian fraud nexus and location of victims in mass marketing fraud disclosures

Financial transaction reports and information provided by law enforcement to FINTRAC indicate that Ontario and Quebec are the bases of operations for most (73%) mass marketing fraud cases (see figure 1).¹⁹ Analysis also revealed that in 93% of cases, the main base of operations for the scheme was located in

the greater metropolitan areas of Toronto, Montreal, Vancouver, Calgary or Edmonton. These findings are consistent with statistics from the Canadian Anti-Fraud Centre, which indicate that Canadian based mass marketing fraud operations are more commonly found in Ontario, and more specifically in the Greater Toronto area.²⁰

Figure 1: LOCATION OF CANADIAN NEXUS IN MASS MARKETING FRAUD CASE SAMPLE



¹⁹ Although for most of the cases analysed it is possible to determine the main province of operation of the fraud with some degree of certainty, in a small number of cases the type of information available did not help to identify a single province of operations. These cases concern Quebec and Ontario only and were identified as belonging to the “Quebec and Ontario” category.

²⁰ Mass Marketing Fraud and ID Theft Activities, Canadian Anti-Fraud Centre Criminal Intelligence Analytical Unit, Annual Statistical Report, 2013.

Analysis of law enforcement information, suspicious transaction reports and electronic funds transfer reports led to the identification of the places of residence of suspected mass

marketing fraud victims. Figure 2 shows that 76% of the mass marketing fraud victims live outside Canada, including a high percentage (66%) living in the United States.

Figure 2: PLACE OF RESIDENCE OF SUSPECTED MASS MARKETING FRAUD VICTIMS IN CASE SAMPLE

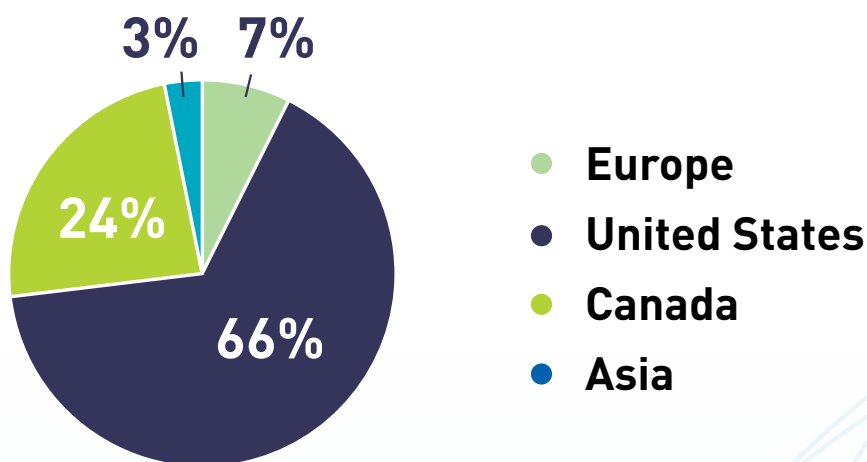


Figure 3: DISTRIBUTION OF CASES BY MASS MARKETING FRAUD CATEGORY

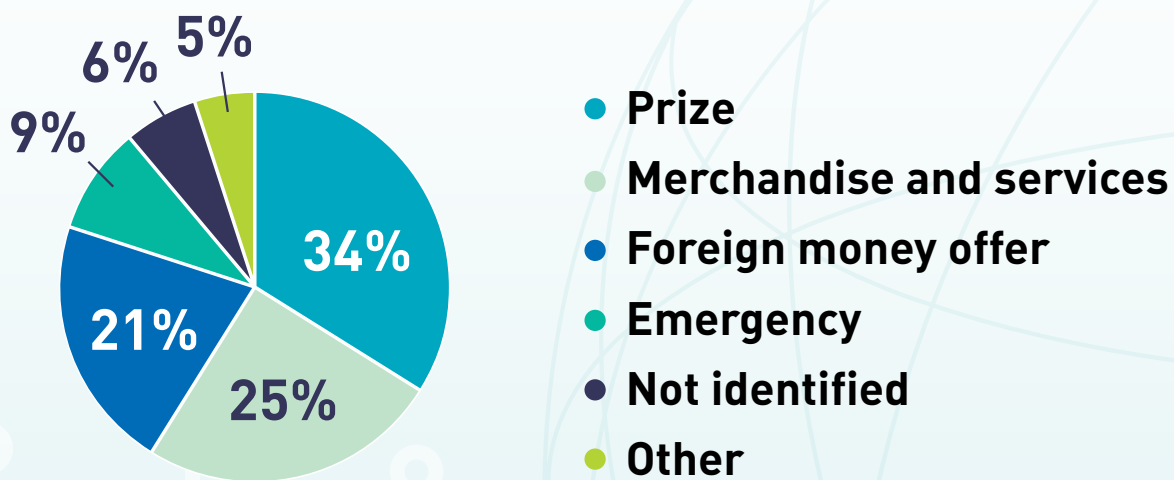
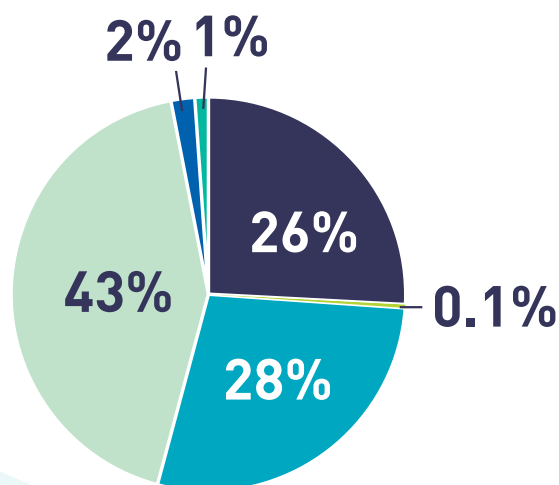


Figure 4: DISTRIBUTION OF TOTAL DOLLAR VALUE OF CASES BY MASS MARKETING FRAUD CATEGORY

- Prize
- Merchandise and services
- Foreign money offer
- Emergency
- Not identified
- Other

Figures 3 and 4 show the relative distribution of cases by mass marketing fraud category and the relative distribution of the total dollar value of the cases by category, respectively. The figures illustrate that the “prize” mass marketing fraud category accounts for largest proportion of mass marketing fraud cases (34%), while the “merchandise and services” category of mass marketing fraud accounts for the largest proportion of dollar value of mass marketing fraud cases.

We can observe that the relative dollar value of “foreign money offer” and “emergency” categories of mass marketing fraud cases is very low compared to their relative proportion of mass marketing fraud cases. These differences in the relative distribution of mass marketing fraud case categories and of the dollar value of cases by category may be an indication of the “intensity” of the fraud (in terms of potential losses incurred by the victims) for the various categories of mass marketing fraud. However, proceeds of mass marketing fraud may also be laundered with instruments or using transactions that cannot be observed by FINTRAC.

MONEY LAUNDERING TECHNIQUES AND METHODS

The following section describes the techniques and methods that appear to be used to launder the proceeds of suspected mass marketing fraud, as observed in the financial transaction reports available to FINTRAC.

Use of businesses

Amongst the observed methods and techniques, the use of businesses was the most frequently observed, accounting for 25% of total identified techniques and methods. For the purpose of this report, they are defined as real or fictitious entities that are controlled by suspected marketing fraud perpetrators and whose activities consist partially or fully in operating a mass marketing fraud scheme or in laundering the proceeds of the fraud.

Businesses can comeingle the proceeds of fraud with the proceeds of legitimate business activities. For this method to be effective (i.e. to be able to avoid suspicion), the types of financial transactions (cash, wire payment, cheque or other type) must correspond to those normally associated with the company’s business activities.

TYPES OF BUSINESSES AND TYPES OF MASS MARKETING FRAUD

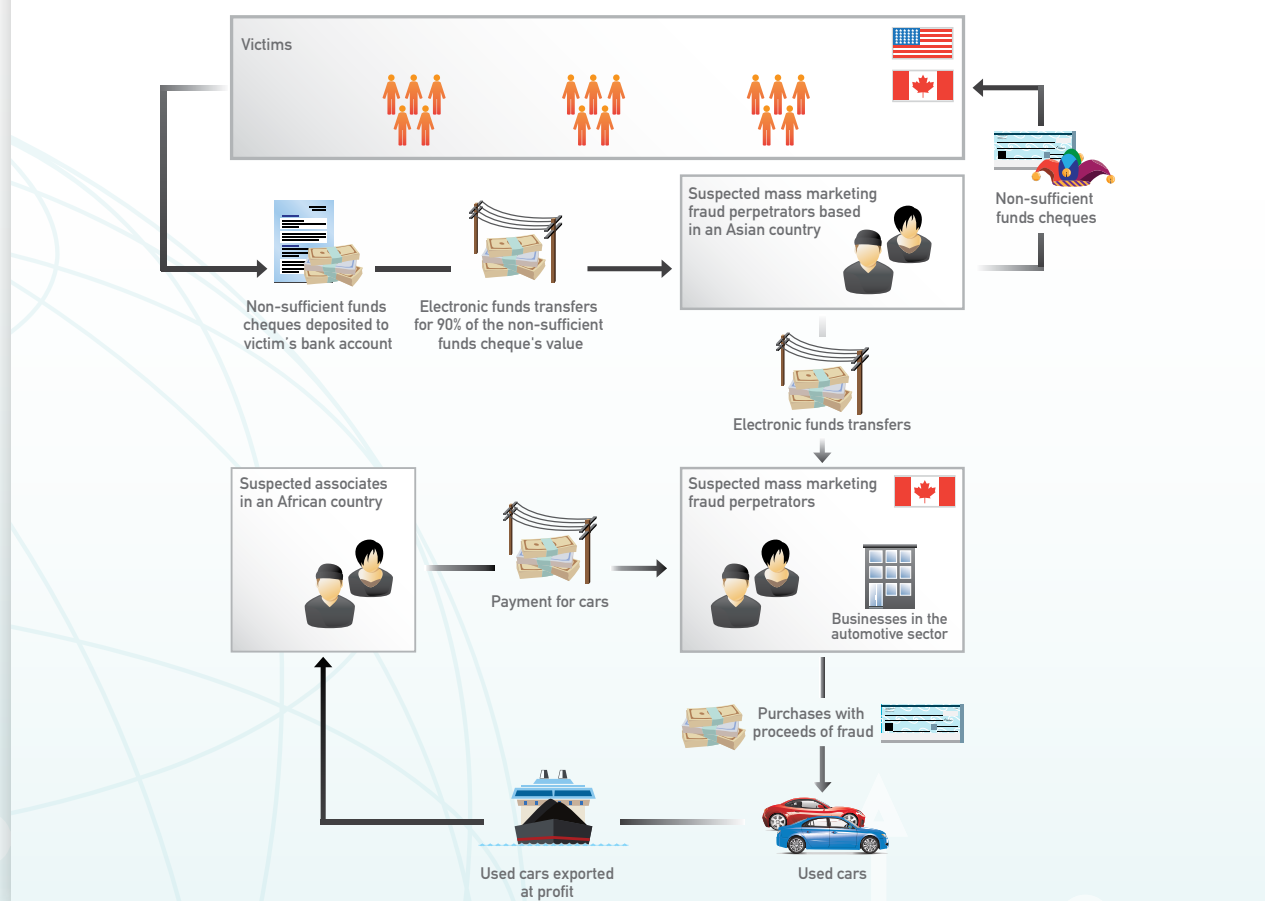
a) Companies active in the automotive and food sectors

Information from law enforcement and financial transaction report data shows that the automotive and food sectors are closely associated with suspected “foreign money offer” mass marketing fraud.²¹ These two sectors account for more than 50% of the businesses linked to this category. There are few barriers to entry and it is easy to start a business in either sector, as they are subjected to few regulations.

Because of their high use of cash, these sectors can be exploited for money laundering.²²

Businesses operating in the automotive sector have been found to use trade-based money laundering techniques to launder the proceeds of mass marketing fraud. Trade-based money laundering is defined as a process of disguising the proceeds of crime through the use of trade transactions in an attempt to legitimize their illicit origins. In the case below, the laundering of the proceeds of mass marketing fraud was achieved through the exportation of vehicles purchased with the illicit proceeds.

EXAMPLE INVOLVING BUSINESSES IN THE AUTOMOTIVE SECTOR USING A TRADE-BASED APPROACH TO LAUNDER THE PROCEEDS OF “FOREIGN MONEY OFFER” MASS MARKETING FRAUD



²¹ The automotive sector includes the sale of used cars (the most common activity in the category), short-term leasing, importing and exporting, sales of parts, and servicing. The food sector includes retail and wholesale sale of food products, catering and restaurants.

²² More specifically, the automotive sector uses cash for the sale of used cars, the sale of parts, and automotive repair and maintenance.

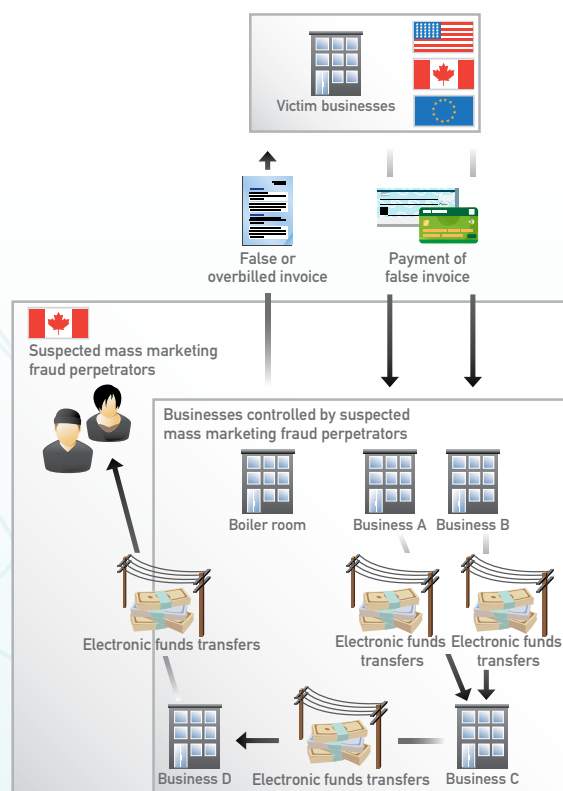
This sanitized case represents a “foreign money offer” mass marketing fraud scheme where the victims are asked to deposit a cheque and wire funds to a bank account in an Asian country for a commission. The victims were instructed to deposit the cheque (which will turn out to have non-sufficient funds), take a 10% commission, and send the balance (90% of the amount) by electronic funds transfer to a bank account in an Asian country. Analysis of financial transactions identified that mass marketing fraud perpetrators based in the Asian country received funds from Canadian and American victims, which upon receipt, were returned to accomplices and entities based in Canada. Here we can observe the use of trade-based money laundering techniques where, under the cover of a business, accomplices acquired used vehicles with the proceeds of fraud, which were then exported to an African country. Beyond

laundering the proceeds of fraud, this strategy allows for the potential resale of the exported vehicles at a significant profit, as they will have a greater value in Africa than in Canada.

b) Companies active in the telemarketing and financial sectors

Analysis of information provided to FINTRAC by law enforcement suggests that the telemarketing and financial sectors are closely associated with the “merchandise and services” category of mass marketing fraud. The two sectors, which are consistent with the mass marketing fraud modus operandi, account for nearly 35% of the types of businesses observed in this category. The telemarketing sector is also closely associated with the “emergency” category of mass marketing fraud, and accounts for nearly 30% of the types of businesses observed.

EXAMPLE IN WHICH TELEMARKETING SECTOR BUSINESSES ARE USED TO LAUNDER THE PROCEEDS OF “MERCHANDISE AND SERVICES” MASS MARKETING FRAUD TARGETING BUSINESSES



This sanitized case provides an example of the “merchandise and services” mass marketing fraud which targets businesses using boiler room strategies to coerce victims into purchasing overpriced supplies or settling a bill for an item or a service that was not delivered.

Analysis of financial transaction reports, as well as information provided to FINTRAC by law enforcement suggests that businesses, operating as telemarketing firms and call centres, are used to both commit fraud and to launder the resulting proceeds. Victims pay by cheque or credit card and the funds are then deposited into business accounts before being sent to other businesses by wire transfer. The use of several levels of businesses allows the suspected perpetrators to dissociate themselves from the fraud.

Red flags indicating the use of businesses to launder the proceeds of mass marketing fraud (based on the analysis of financial transaction reports and voluntary information records)

- Receipt of funds from or depositing of funds (electronic funds transfers or cheques) by individuals who do not appear to be related to the business activities of the company holding the account;
- Repeated transfers of funds from a personal account to a business account;
- Repeated deposits of cash into the account of a company that is active in a sector where cash transactions are unusual;
- Receipt of electronic funds transfers into a business account followed by one or more electronic funds transfers to the country from which the wire payments initially originated.

Use of money services businesses

Financial transaction reports show that individuals suspected of involvement in mass marketing fraud make considerable use of money service businesses not only to perpetrate the fraud, but also to launder their illicit proceeds. The use of money service businesses to send mass marketing fraud-related funds via electronic funds transfer to/from/between perpetrators is observed in the “foreign money offer” and “emergency” categories of mass marketing fraud. In cases related to the “sweepstakes fraud” category, cheque cashing firms were used to bring the proceeds of fraud (in the form of numerous cheques for relatively small amounts) into the financial system. For this category of mass marketing fraud, money service businesses were also used for currency conversion.²³ Additional observations on the use of money service businesses to launder the proceeds of mass marketing fraud are covered in the “structuring” section below.

Red flags indicating the use of businesses to launder the proceeds of mass marketing fraud (based on the analysis of financial transaction reports and voluntary information records)

- Repeated and atypical deposits of cheques issued by a money service business into a bank account;
- Repeated and atypical deposits of cash into a bank account;
- Atypical or “uneconomical” electronic funds transfers (e.g., United States to Canada followed immediately by Canada to the United States) made for no reason.

²³ Financial transactions and reports as well as the voluntary information records shows that the “prize” and “sweepstakes fraud” mass marketing fraud targets individuals in a wide range of jurisdictions. The proceeds of this fraud are therefore received in the form of cheques in various currencies from victims around the world.

Structuring and nominees

Structuring implies that a transaction involving cash or other monetary instruments issued by a bank or a money service business is divided into several smaller transactions to avoid raising suspicion. Structuring is also used to avoid the \$10,000 reporting threshold applicable to large cash transaction reports and electronic funds transfer reports. Structuring is observed in mass marketing fraud, particularly where the activities involve cash transactions such as bank deposits or electronic funds transfers through a money service business. Suspected mass marketing fraud perpetrators can be observed making multiple low-value deposits of cash (primarily) or of other monetary instruments within a short period of time and/or making deposits at multiple institutions and branches. The review of suspicious transaction reports and electronic funds transfer reports also identified instances where transfers were structured into multiple transactions to avoid reporting.

Structuring is especially prevalent with the “tax on lottery winnings” sub category and the “foreign money offer” category of mass marketing fraud. The large cash transaction reports and suspicious transaction reports show that the funds received from victims through money service businesses are usually redeemed in cash (or occasionally with other monetary instruments) by the suspected mass marketing fraud perpetrators or their suspected accomplices and then structured into small amounts to be deposited in bank accounts. Suspected perpetrators are also observed sending funds to suspected accomplices using structured electronic funds transfers through a money service business or many money service businesses. The structuring of electronic funds transfers ordered through banks is also observed, although infrequently. In the suspicious transaction reports that were studied, there was also evidence of structuring of electronic funds transfers made through a

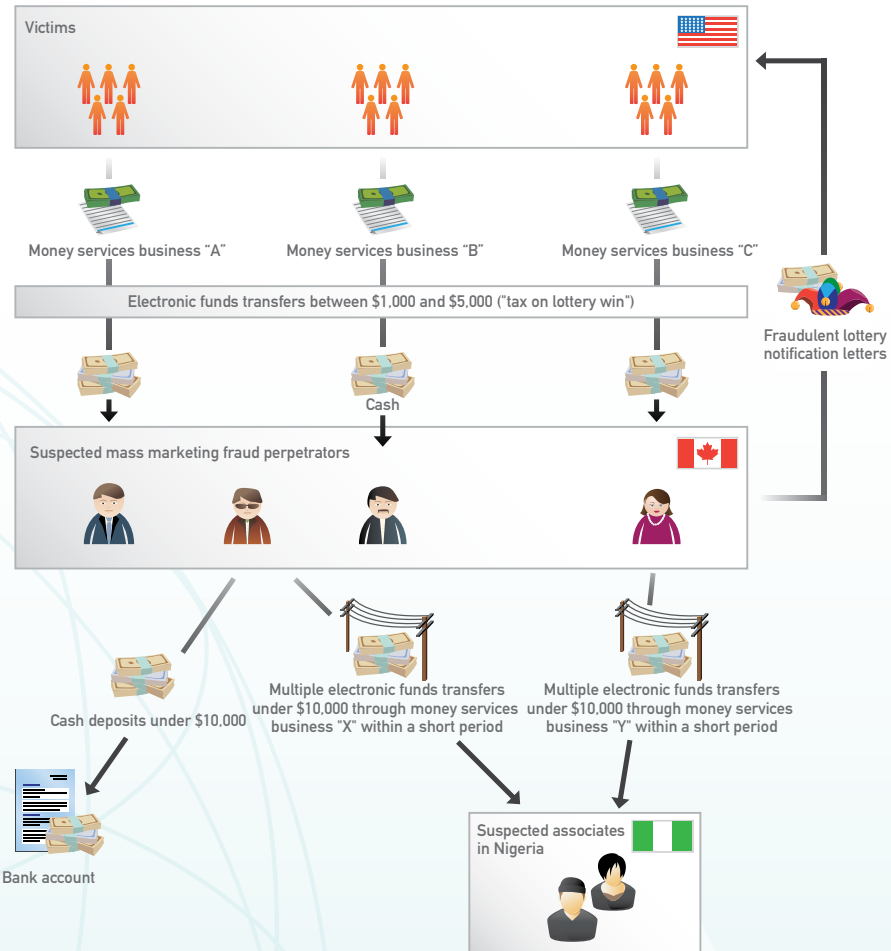
money service business to foreign jurisdictions, mainly with the “sweepstakes fraud” and the “merchandise and services” categories of mass marketing fraud.

The “use of a nominee” is a method where an actual or fictitious person who is not associated with the fraud carries out a financial transaction on behalf of a suspected mass marketing fraud perpetrator. The nominee is used to dissociate the suspected perpetrator from the proceeds of the fraud, thus concealing the source or true ownership of the funds being issued, deposited or moved. Nominees are more frequently used with “tax on lottery winnings” and “foreign money offer” categories of mass marketing fraud. The use of nominees has been observed in the deposit of cash and cheques into the accounts of businesses linked to these categories, which depend largely on cash transactions. The coordinated use of nominees, which consists of using a group of individuals to make multiple low-value deposits, a variation of structuring, known as “smurfing” is also observed in mass marketing fraud-related transactions.

Red flags for the use of structuring and nominees in the laundering of proceeds of mass marketing fraud (based on the analysis of financial transaction reports and voluntary information records)

- Individuals alternating between several money service businesses in order to make electronic funds transfers to the one person;
- Individuals making several small electronic funds transfers through a money service business or bank on behalf of the one person or a group of persons over a short time period;
- Individuals’ receiving several small electronic funds transfers from the one person or a group of persons over a short time period.

EXAMPLE IN WHICH MONEY SERVICE BUSINESSES AND STRUCTURING ARE USED TO LAUNDER THE PROCEEDS OF “PRIZE” (“TAX ON LOTTERY WINNINGS”) MASS MARKETING FRAUD



The above sanitized case represents a “tax on lottery winnings” mass marketing fraud scheme that involves fraudulent solicitation letters notifying recipients that they have won a lottery, but are first required to pay an advance fee to receive the prize. This example shows the combined use of money service businesses and structuring for the purpose of laundering the proceeds of mass marketing fraud.

Through analysis of suspicious transaction reports, FINTRAC has observed that electronic funds transfers from suspected victims are received through various money service businesses by multiple suspected mass marketing fraud perpetrators in the form of cash. Suspicious transaction reports then show different suspected mass marketing fraud perpetrators (although occasionally,

one individual can be seen receiving and sending funds) depositing cash in bank accounts and ordering multiple electronic funds transfers under \$10,000 through different money service businesses within a short period of time. These funds transfers are sent to suspected accomplices in a different jurisdiction (in this case Nigeria). In this particular case the ultimate disposition of cash deposited in bank accounts is unknown. By sending structured electronic funds transfers to a different jurisdiction using suspected accomplices who are not the beneficiaries of the electronic funds transfers sent by the victims, suspected mass marketing fraud operators attempt (in this case unsuccessfully) to dissociate the funds from the fraud and seek to avoid the transaction being reported to FINTRAC through a large cash transaction or electronic funds transfer report.

CONCLUSION

Mass marketing fraud is a crime which is growing in scope and one that incurs substantial losses to victims worldwide, including Canadians. Where fraud operations of this type are based in Canada, they appear to be based in urban centres in Ontario and Quebec; FINTRAC data suggests that residents of the United States are a significant target of these operations.

Several categories of mass marketing fraud exist, each with particular characteristics designed to defraud victims. Almost all of the cases analysed for this report involved businesses, and the automotive sector is one of the main sectors suspected of being used to launder the proceeds of mass marketing fraud. Structuring and the use of nominees are two money laundering methods which have been observed by FINTRAC. While financial institutions appear to be used for suspected money laundering associated to certain mass marketing fraud schemes, many schemes appear to leverage money service businesses not only to receive funds from victims, but to launder the illicit proceeds as well. These reporting entities in particular should note the “red flags” included this report, and ensure that similar suspicious activity is reported to FINTRAC.

The money laundering methods and techniques described in this report will continue to be employed by criminals as long as they are successful. Mass marketing fraud continually reinvents itself in order to adjust to increased public and reporting sector awareness, as well as law enforcement efforts to combat it. It is therefore imperative for stakeholders to continue their collaboration to detect, deter and disrupt mass marketing fraud and the laundering of mass marketing fraud proceeds.

APPENDIX A: CANADIAN ANTI-FRAUD CENTRE DEFINITIONS OF TYPES OF MASS MARKETING FRAUD

Merchandise:

Any product purchased through a classified ad, over the Internet or at Internet auction sites; or through a catalogue or by mail order, and where the item is never received or the product is of inferior value or quality or not what it is supposed to be.

Foreign money offer:

Any solicitation requesting assistance to transfer a large sum of money from another country. The solicitation may also come from an individual claiming to be a lawyer notifying the victim of the inheritance of a sum of money. The victims must pay one or more advance fees before the money can be released. The money or inheritance is fictitious and the victim never receives the money. This is sometimes referred to as Nigerian, 419 or West African fraud.

Prize:

Any false, deceptive or misleading solicitation advising victims they have won or have the chance to win something but are required to purchase something first or pay an advance fee, such as taxes, to receive the prize.

Service:

Any false, deceptive or misleading promotion of or solicitation for services. These solicitations involve third parties that commonly make offers for telecommunication, Internet, finance, medical and utility services. Additionally, this category may include, but is not limited to, offers such as extended warranties, insurance and sales services.

Emergency:

Any solicitation from someone claiming to be a friend or family member, stating that he/she is in some kind of trouble, usually having been arrested, involved in a car accident or trapped in a foreign country and in need of money immediately for bail, medical fees or a ticket home. This is sometimes referred to as the "Grandparent Scam."