



Organized Crime Research Brief no. 2

POP and Securities Fraud

BUILDING A SAFE AND RESILIENT CANADA

Problem-oriented policing (POP) has not been systemically applied to securities fraud in Canada. Offenders are generally white, well-educated males who specialize in white-collar crime, and who move often. Seniors are common victims; people are often repeatedly victimized.

Problem-oriented policing (POP) is a broad philosophical approach that represents a systemic change in the way police departments approach their mission. Rather than simply looking at individual events or cases, POP combines these cases into discrete “problems” and then develops strategies to deal with the factors underlying the identified problem. When applied to securities fraud, a POP approach emphasizes proactive solutions that can prevent frauds from occurring in the first place, thus avoiding losses by investors.

The authors of this report outlined a problem-oriented approach to securities fraud and considered the involvement of organized crime in such offenses. Factors contributing to securities fraud in Canada were also discussed, as well as a number of potential ways of applying a POP approach to counteract these factors.

The report did not find any systematic attempts to apply POP to securities fraud in Canada. However, one program dealing with other types of fraud provides an example of how such an approach could be implemented. In 1995, the Nassau County Police Department solicited help from seniors groups, the district attorney’s office, and the business community to identify the extent of fraud problems against seniors and to develop effective prevention measures. Statistics in one Nassau County precinct revealed 60 incidents of fraud against seniors between 1992 and 1995. While seniors were well versed in telemarketing and mail fraud, they were still being victimized by home improvement scams and burglaries by

individuals posing as utility company employees. The impact of this program was a 53% drop in reported cases of frauds, from 32% in 1997 to 17% in 1998.

One of the keys to effective problem-oriented policing is knowledge of the characteristics of offenders and victims. There are several very different types of offenders of securities fraud. For example, corporate executives who misrepresent their company’s profits have very different characteristics than serial “pump and dump” offenders who move from one scam to another. The limited research that is available indicates that securities fraud offenders are generally white, relatively well-educated males who specialize in white-collar offenses. Securities fraud offenders had higher rates of recidivism than other “high-status” white-collar crime offenders. Recidivists tended to move from place to place while developing new fraudulent schemes. Offenders who committed securities fraud were intelligent, had business savvy and strong interpersonal skills, lacked empathy, and were able to rationalize their misconduct.

The research literature also indicated that seniors may be disproportionately victimized by some types of fraud and that some people may be repeatedly victimized. One study of fraud schemes showed that most victims were well-educated and employed, and that victims even recruited other victims, who were often people from the same company.

The report indicated that an investment in intelligence-based research and analysis, education of investigators and securities industry actors, as well as additional regulation that is consistently enforced, are all ways to help curtail securities fraud. It is apparent that policing can have an important role to play in developing strategic



responses to combat this type of offending, by reducing the opportunity for offending, in addition to uncovering and building cases against perpetrators of these types of crimes.

From the information gathered in this study, the authors recommended that initiatives be undertaken within the securities industry, as well as between the industry, government regulators, and scholars, to develop a comprehensive and rigorous research agenda that would encompass a variety of tactical, strategic, and etiological levels of analysis. Particular emphasis could be placed on the use of such information to inform a better etiological understanding of securities fraud. The results of such a research agenda might be used for both basic and applied purposes.

Linden, Rick and Stephen Schneider. (2010) *Problem-Oriented Policing Approaches to Securities Fraud*. Ottawa, ON: Public Safety Canada.

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