

ONLINE AUCTIONS NAMED THE NUMBER ONE INTERNET FRAUD COMPLAINT FOR 1998

Cyberspace fraud and abuse

Unwary investors are in danger today of being taken for a ride on the information superhighway.

State securities regulators around the US are concerned about the explosion in illicit investment schemes now flourishing on commercial bulletin board services and the informal web of computer networks that make up the Internet. Households that already have access to online services are being exposed to hundreds of fraudulent and abusive investment schemes including stock manipulations, pyramid scams and Ponzi schemes¹.

Cyberspace, as the online world is known, has the potential to educate investors and help them become better consumers. Any computer and modem is a few keystrokes away from research data and financial news. However, State securities regulators emphasise that the problem of illicit and abusive online investment schemes has the potential to spread like wildfire through the Internet, using increasingly popular commercial bulletin board services, live discussion groups (chats), e-mail, and information web pages, all of which can maintain the anonymity of cyberspace. This is exploited to the hilt by those who promote fraudulent investment schemes.

New frauds are emerging, too. According to Internet Fraud Watch, complaints about fraud on the Internet have risen 600% since 1997, and online auction complaints were the number one fraud complaint only one year later, a dramatic rise. The majority of payments in these fraud cases were made offline, by cheque or money order sent to the company. 'Requesting cash is a clear sign of fraud. Pay the safest way. If possible, pay by credit card because you can dispute the charges if there is a problem,' says the Director of Internet Fraud Watch. IFW recommends that buyers use escrow services: they take payment from the buyers and only pass money along to the sellers after verification that the goods or services were satisfactory. Some auction companies have programmes to insure transactions.

The top 10 scams were, according to the National Consumer League:

- 1 Web auctions: items bid for but never delivered by the sellers, the value of items inflated, shills² suspected of driving up bids;
- 2 General merchandise: sales of everything from T-shirts to toys, calendars and collectibles, goods never delivered or not as advertised;

3 Internet services: charges for services that were supposedly free, payment made online and Internet services that were never provided or were falsely represented;

4 Hardware or software computer equipment: sales of computer products that were never delivered or were misrepresented;

5 Business opportunities like multi-level marketing or pyramid schemes, in which any profits were made from recruiting others, not from sales of goods and services to end-users;

6 Business opportunities or franchises: empty promises of big profits with little or no work by investing in pre-packaged businesses or franchise opportunities;

7 Work-at-home plans: materials and equipment sold with the false promise of payment for 'piece work' performed at home;

8 Advance fee loans: promises of loans contingent on the consumer paying a large fee in advance. Once the fee is paid, the loans are never disbursed;

9 Credit 'repair': fraudulent promises to remove accurate but negative information from consumer credit reports;

10 Credit card issuing: false promises of credit cards to people with bad credit histories on payment of up-front fees.

1 buyers are persuaded to invest money in dishonest 'businesses' in return for promises of quick profits

2 someone who cooperates in an auction scam by pretending to want to buy goods and so raising the bids

From www.fraud.org, The National Consumer League

Legal brief

The National Fraud Information Centre was set up in 1992 to fight telemarketing fraud. In 1996 the National Consumers League in the US decided to expand its efforts to cover fraud in cyberspace. By contacting the website at www.fraud.org, consumers from all over the world can get tips on how to avoid 'scams' (fraudulent tricks) and can report fraud. The site receives 70,000 visits and 1,300 e-mails weekly.