

# Online Auction Fraud: The Fastest Growing Crime?

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A few years ago, a little company named *eBay Inc.* created a revolutionary online auction place where people could meet to buy and sell goods. It quickly grew into a multibillion-dollar enterprise and is now the biggest online auction site in the world. Given the transaction medium, online auctions rely on trust between buyers and sellers, so it wasn't long before criminals took advantage of that trust and defrauded their victims in the process.

In the US earlier this year, 25-year-old Teresa Smith was sentenced to nearly five years in prison for perpetrating what may be the biggest Internet auction fraud ever. During an 18-month period she amassed \$880,000 from nearly 350 victims (Kauffman, 2003). To do this she sold *Apple* computers over the Internet, mostly on *eBay*. Hundreds of buyers sent her money, but very few received the computers. When customers complained, Smith offered a variety of false excuses, blaming shipping delays, problems with her computer supplier and unreliable employees. Smith kept the scheme going by using multiple *eBay* accounts, adopting a new online identity each time the auction house received complaints and suspended her account. This is just one of the many cases that has now reached the courts.

According to the National Consumers League (NCL; 2002), violent crime may fill column inches, but for many criminals, it is easier to steal from consumers with computers than with guns. Complaints about online auction transactions steadily decreased in the late 1990s. However, 2002 saw a large increase with online auctions accounting for 87 per cent of the Internet fraud reports made to the Internet Foundation Watch compared to 70 per cent in 2001 (NCL, 2002). The Federal Trade Commission's Consumer Sentinel, that gathers online fraud complaints for a consortium of law enforcement groups, received more than 20,000 Internet auction fraud complaints last year (Ridder, 2003). Consumers thinking they have bought items such as artwork or jewellery frequently report losses to the Internet Fraud Complaint Center. The average loss is about \$3,000, and the Federal Bureau of Investigation is actively investigating the rapidly rising number of complaints (Tatum, 2003a).

The figures appear to be confirmed by other bodies. Between the end of 2002 and May 2003, the US Federal Trade Commission had arrested, indicted or issued warning letters to suspects in 57 cases who allegedly duped victims out of tens of millions of dollars in cash and merchandise (Eunjung Cha & Walker, 2003). From 2001 to 2002, the number of complaints about Internet fraud reported to the FBI tripled to 48,000, with losses estimated to be \$54 million. Auction fraud was by far the most common

problem, accounting for nearly half of the complaints (Eunjung Cha & Walker, 2003). Furthermore, Government officials say they believe the reports represent only a small portion of the crimes actually being committed.

There are many different types of online auction fraud. One popular method is for criminals (often international gangs) to hack into the accounts of users with good reputations (ie, sellers who showcase their positive feedback). For instance, a team of criminals used an innocent man's *eBay* account to auction Sony camcorders. More than 25 online bargain hunters agreed to pay \$605 apiece to Kevin Pilgrim (Ridder, 2003). However, there were no camcorders and Pilgrim had no idea that his *eBay* identity had been stolen. The two-day auction was a fraud and the criminals were never caught.

To crack accounts, criminal hackers use ingenious methods. A popular method is to send a user an e-mail purporting to be from *eBay* asking for private and detailed information (Tatum, 2003b). At first glance, the message looks official and appears to have been sent by the company's security department. Corporate logos and several links taken from *eBay's* Web site are intermingled with a form requesting information about credit card, cheque accounts, driver's licence and Social Security numbers. Recipients are asked to respond within 24 hours or face service cancellation, future billing problems or "terms of service violations." Hackers then defraud the victim by using the information supplied. Such e-mail hoaxes, commonly referred to as "spoofs", appear to be on the rise.

For instance, in July 2003, a similar con operated where users of the payment system *PayPal* were being bombarded with highly plausible hoax e-mails seeking access to their credit card details. Realistic e-mails claimed to contain "the notification of recent innovations taken by *PayPal* to detect inactive customers and non-functioning mailboxes" (Paterson, 2003). Customers were then asked to type in their e-mail address, password and full name and then to press a log-in button. Far from making their details more secure, their credit card details were forwarded to fraudsters enabling them to spend up to the credit card's limit.

Another method is for hackers to use robotic "dictionary" programs that surf through accounts trying every word until they find one that works as a password (Ridder, 2003). Criminals can also choose web addresses similar to legitimate services and copy all or part of the genuine text and graphics to make the bogus site look authentic (Tatum, 2003). Such schemes are intricate and hard to spot as fakes.

Unfortunately, current legislation leaves police powerless to make arrests despite the deception involved and the apparent intent to commit fraud. It is not an offence to send a fake e-mail and police cannot act on the suspicion

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that credit card fraud will be committed. The UK's National Crime Squad's Hi-Tech Crime Unit said that there had been a lot of this type of fraud in the first half of 2003 (Paterson, 2003). However, many of the e-mails are sent from outside the country and therefore outside UK jurisdiction. As auction fraud skyrockets as online commerce grows, consumer protection is not keeping pace. Furthermore, in the time it takes to find a fraud, report it, investigate it and get it removed from the Internet, criminals could put up five new Internet sites doing the same thing.

### What Can be Done to Overcome the Problem?

To help combat the problem, the Washington State Attorney General's Office and the University of Washington Center for Law, Commerce & Technology released a report, "Online Auctions – A Best Practices Report." It presented a "menu of options" for combating fraud in the online auction industry based on interviews with major auction sites (see <http://www.law.washington.edu/lct>). Last year, eBay changed its privacy policy so that it could warn customers about users who have been suspended for fraud. It also shares information about alleged fraud with law enforcement agencies and this is believed to be the reason that online auctions have such a large percentage in the fraud figures (Farrell, 2002).

Information about sellers' track records may be available in feedback forums on auction web sites, from the Better Business Bureau, and from state and local consumer protection agencies. While no complaints does not guarantee that the transaction will be trouble-free, a history of complaints is a good indication not to do business with a company or individual. In addition, credit cards are one of the safest ways to pay. If an buyer does not get their merchandise or it was not described honestly, they can dispute the charges. Some auction sites also offer insurance. However,

consumers should read the terms carefully before they bid to understand how much is covered and whether there are any requirements or limitations. For example, some insurance only covers the buyer if the seller had a good "feedback" rating on the auction site at the time of the transaction.

As has been shown, online auction fraud appears to be a fast-growing problem and needs to be taken seriously by all those within the criminal justice system.

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#### APPOINTMENTS

**District Judge:** Marc Marin to be a District Judge on the South Eastern circuit, with effect from August 11, 2003.

**Chief Social Security & Child Support Commissioner:** His Honour Judge Gary Hickinbottom will be the Chief Social Security and Child Support Commissioner, with effect from September 29, 2003.

#### NEW DIRECTOR – LIBERTY

Shami Chakrabarti is the new director of Liberty, succeeding John Wadham who has recently been appointed deputy chairman of the Independent Police Complaints Commission.

#### RETIREMENTS

District Judge Wigfield retired from the District Bench on the South Eastern circuit on August 1, 2003. He has been appointed as a District Judge sitting as a deputy in retirement.

His Honour Judge Campbell Boothman retired from the Circuit Bench on the Western circuit on July 31, 2003.

Master Pollard retired from the Supreme Court on August 31, 2003. Thereafter he will be appointed as a Costs

Judge sitting as a deputy in retirement.

District Judge Elliott retired from the District Bench on the North Eastern circuit on August 12, 2003.

#### DRUGS POSSESSION FOR DPP

It has been disclosed that Ken Macdonald QC, the new Director of Public Prosecutions, has convictions for possessing drugs, from 1971, when he sent 0.1g of cannabis through the post to a friend while in his first year at university. He was fined £25 at Oxford magistrates' court for possession of a dangerous drug and fined a further £50 plus £5 costs for procuring a dangerous drug. Mr Macdonald was also caught speeding in 2001.

#### BOW STREET STATION

It was confirmed this week that the Bow Street Police Station, closed in 1992, will be sold off for approximately £25m, and will likely be turned into offices, shops and luxury flats. The Metropolitan police authority have been told by legal experts that they must make a profit from the Grade II listed building and not give the building to a group who wished to make a police museum from it.