

Testimony to United States Senate Special Committee on Aging

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Chairman Smith and Ranking Member Kohl:

Every year Americans lose over \$40 billion in telemarketing, investment, and charity fraud. While this dollar figure is staggering, it doesn't capture the true costs of this crime. Fraud not only impoverishes victims financially, but it can also impoverish them emotionally and drive a wedge between victims and family members. Economic fraud crimes have societal consequences as well, resulting in a loss of trust that impacts the business community and erodes the very fabric of life in American society.

What We Have Learned from Our Research on Economic Fraud Crimes

I want to report some good news in the fight against economic fraud crimes.

For the last 8 years, I have been a member of a team of researchers and fraud fighters consisting of myself, Doug Shadel – State Director of AARP Washington, Bridget Small – Director of Consumer Protection for AARP in Washington, D.C., and Melody Kleinman – of WISE Senior Services, whose written testimony you also received today.

Our team has conducted surveys of victims, carried out experiments investigating the effectiveness of intervention strategies, developed educational materials, trained volunteers to fight this crime, and warned over a quarter million potential victims about fraud crimes. As a result of our work, we have developed an understanding of the nature of the crime and some strategies for preventing it. I want to tell you four things that we have learned.

First, we have learned that the weapon that is used in fraud crimes is social influence. No one knowingly gives their hard earned cash to a con criminal – they think that they are making an investment, winning a prize, providing for charity, or some similar positive goal. The con criminal is a master at using one high-powered influence tactic after another to sell a deception. Given that the weapon in a fraud crime is an invisible one – social influence as opposed to a gun or a knife – there is a tendency by both victims and observers not to recognize economic fraud for what it really is – a crime. Recently, Doug Shadel and I analyzed over 250 undercover tapes used in fraud investigations. In these tapes law enforcement took over a victim's phone line and then tape recorded the con criminal's pitch. In listening to these tapes, we found that con criminals would play different roles – authorities, friends, even dependents – to create a platform of trust. They would then use many well-established social influence tactics to sell the crime. For the

most part, this sales pitch is charming and sweet, although nonetheless, deceptive and effective. However, at times it can also be abusive, frightening, and intimidating.

Mr. Chairman, with your permission, I would like to play a portion of some of these tapes to illustrate the abusiveness that can occur. This selection is a montage of fraud pitches taken from two different undercover tapes. Victoria and Sean are working together for *WMT* – a company claiming to offer credit card protection. In reality, they are attempting to get Helen (a seasoned investigator posing as a victim) to make a verification – to give her name and other personal information over the phone, which they will then record and use to make withdrawals from Helen’s bank account. In another scam, Robert has told Ardelle (a real victim whose telephone line has been taken over by law enforcement) that she has won a prize and needs to send in money to claim the prize. Ardelle is out of money, and thus Robert is making one last attempt to try to steal whatever he can from her.

Play Track 2 (transcript in Appendix).

Mr. Chairman, with your permission, I would like to play a portion of a second section of our tapes that will give you and your committee a feel for the abuse many seniors experience at the hand of con criminals. The following is taken from a call recorded in March of 2003 from a Canadian company called *WMT* claiming to offer card protection but in reality this is a ploy to obtain a tape-recording of the victim providing personal and credit information to use to withdraw money from her account – what the con is calling “a verification.” Let’s listen in.

Play Track 1 (transcript in Appendix)

A second thing we have learned is that just about anyone can fall prey to this crime; it impacts a large cross-section of our society. Con criminals go where the money is and thus older Americans with their nest eggs are a prime target of this crime. The stereotype of the frail or lonely victim does not stand up in our surveys of victims. While some victims are indeed lonely, others are active leaders in their communities. Indeed, we find that con criminals profile their victim’s psychological and other characteristics to find their Achilles’ heel (and we all probably have one) to construct the exact pitch that is likely to be most effective with each victim. For example, in one of our surveys, we found that victims of lottery fraud (which emphasizes luck) believed that the world controls them (a psychological trait known as external locus of control) whereas victims of investment fraud (which emphasizes mastery of one’s fate) believed that they control the world (or a trait of internal locus of control). The con pitched the exact scam to take advantage of the person’s psychological characteristics.

Third, we have identified effective strategies for preventing this crime. In her testimony, Melodye Kleinman described the reverse boiler approach of WISE Senior Center. At WISE, senior volunteers contact potential victims with a warning message. The volunteers call potential victims whose names appear on criminal call or mooch lists that have been recently seized by the F.B.I. The volunteers talk with these potential victims,

explain the nature of the crime, and help develop strategies for preventing the crime. In a series of experiments we tested the effectiveness of this intervention strategy. We first had our volunteers contact the victim with a prevention message and then, a few days later, professional telemarketers attempted to “take” the victim in a simulated scam. We found that our interventions were effective in reducing victimization rates by 50%. Peer counseling is an effective tool in our fight against economic fraud crimes.

Finally, as a result of our research and work with victims, we have identified components of a prevention message that are most effective. Successful prevention messages are ones that provide the potential victim with (a) a specific warning about the crime and, (b) most importantly, coping strategies for dealing with the crime that build a feeling of self-efficacy – a feeling that “I can take charge of the situation and hang up.” We encourage everyone to develop their plan for getting off the phone and to have it ready to go when the need arises. On the other hand, messages that increase fear and defensiveness not only do not work but may actually boomerang and increase victimization rates.

Three Opportunities and Challenges in the Fight against Economic Fraud Crimes

Our research suggests three opportunities and challenges for those interested in preventing this crime.

First, it is important to remember that economic fraud is a crime. There is a tendency to blame the victims in this crime and to believe that “there must be something about them” that led to victimization. Instead our research shows the power of the fraud criminal’s weapon of influence. Victim blaming is harmful to victims and hinders law enforcement’s ability to obtain accurate and timely information about the crime. The victims of economic fraud should be included in any Victim’s Bill of Rights. Sentencing for economic fraud should match the magnitude of the crime and not the charm of the con. We need continuing federal efforts in investigating and enforcing fraud laws.

Second, we now have tools, knowledge, and strategies which have proven to be effective in preventing economic fraud. This information needs to be disseminated to fraud fighters. Doug Shadel in collaboration with Washington State Attorney General McKenna has trained over 2,500 volunteer fraud fighters since October of 2003 who in turn have educated close to 100,000 people in their communities about fraud. This fall they will begin a series of peer counseling events to reach those whose names have been stolen by identity thieves. We need more of this sort of intervention. I would like to see the tools for effectively dealing with this crime in the hands of every victim’s advocate in local and state prosecutor’s offices, the efforts of Washington State duplicated in other states, and the creation of regional centers to fight economic fraud patterned after the remarkably successful program at WISE Senior Center.

Finally, we need research that focuses on the chronic victim – the 50% or so of victims that we did not successfully help in our call center research. Our research shows that chronic, repeat victims find themselves in a rationalization trap of being confronted with

two discrepant thoughts: “I am a good and capable person” but yet, “I just sent my hard-earned money to a scammer.” In such a situation, it is difficult to admit that one has been taken in a fraud without damaging self-esteem. We are currently investigating strategies for resolving this rationalization trap in the hopes of finding effective interventions for use with the chronic victim.

Chairman Smith and Ranking Member Kohl: This concludes my testimony. I thank you for the opportunity to inform you about our research, and I thank you and each of the members of your committee for your leadership in fighting economic fraud crimes.

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Appendix: Transcripts of Portions of Undercover Investigation Tapes

Track 1

The following is taking from a call recorded in March of 2003 from a Canadian company called *WMT*. *WMT* used a credit card protection scam by claiming to offer credit card protection. In actuality, *WMT* used the ploy to obtain a tape-recording of the victim providing personal and credit information so *WMT* could withdraw money from their account – what is called a verification in the transcript. The first two calls that preceded this call were made by a man we will call Sean who claimed to be working with authorities to catch scammers. The victim who we will call Helen is really a seasoned investigator who has taken over a victim's phone line and is posing as that victim. At this point, the sweet talk has faded and the Sean has become extremely abusive in a last effort to get the verification.

SEAN: You know what, you're driving me nuts! What is wrong with you? How are you going to call me, if I'm calling you from an automatic dialer? That's a computer. What are you going to call me, that's the customer service number.

HELEN: Well, how does your family reach you at work?

SEAN: I have a house number. I have a cell number. You're my client. You're not my friend. I'm not going to give you my cell number.

HELEN: Well, if I can't get a number where I can reach you personally, then I don't want to do the verification.

SEAN: Are you stupid? I'm not trying to insult you, but are you mentally ill? Is there something wrong with you that I don't know about? Is there something physically wrong with you, like are you retarded? Are you over-age? Do you forget things? Is there something wrong with you?

HELEN: I don't like your language.

SEAN: No, I'm not swearing, I'm asking you a question. Maybe you could be retarded. I don't know. Is there something wrong with you?

HELEN: Well, I want to call you.

SEAN: Helen, shut up! You just asked me a question; I'm answering it for you. You just asked me a question; I'm answering it for you.

HELEN: You already told me.

SEAN: No, no, no, listen to me. Shh. It's not a phone number like that. It's a customer...

HELEN: Well, I want to call you back.

SEAN: Well, listen, listen, listen. It's a customer service number in case you have problems about the information. Now you can't call because you don't have the information. I still didn't send it to you. So if you call it's not going to do you any good. You cannot reach me, because I'm calling from an automatic dialer. Now because you're an old lady, you have no clue what's going on, an automatic dialer is a computer with a headset. So you can't call it. If I tell my wife to call me back, she can't. She can call me back on my cell phone, which is in the car right now. And I'm not going to give you my cell phone number. Are you my friend, are you my best friend, are you my cousin, are you my family? No client has ever asked me for my house number.

HELEN: I'm not asking you for your house number.

SEAN: Then what are you asking?

HELEN: I'm asking you for a number where I can call you right back at work.

SEAN: I told you, you can't. You cannot do that. I'm on an automatic dialer... That's a customer service number.

HELEN: Well, I'm, I'm not interested in verifying any information.

SEAN: I'm going to tell you something. I'm going to pass you to my manager, because you're making me sweat. And if you were in front of me old lady, man, black, white I would have slapped you by now. Ok?

Track 2

The following is a montage of fraud pitches taken from two different undercover tapes. Victoria and Sean are working together for *WMT* (see Track 1). They are attempting to get Helen (a seasoned investigator posing as a victim) to make a verification – to give her name and other personal information over the phone, which they will then record and use to make withdrawals from Helen’s bank account. In another scam, Robert has told Ardelle (a real victim whose line has been taken over by law enforcement) that she has won a prize and needs to send in money to claim the prize. Ardelle is out of money, and thus Robert is making one last attempt to try to steal whatever he can from her.

HELEN: I don’t think I’m interested.

VICTORIA: Ma’am, it’s illegal to hang up on a verification.

ARDELLE: Who sent me this?

ROBERT: Don’t worry about all that, I’ll give you that information later, because it’s obviously getting too confusing.

ARDELLE: Uh.

SEAN: You’re going to shut your mouth and you’re going to listen to me ***. I’m fed up with you talking over me. I’m going to start this verification. Answer my questions with a yes or with a no. Do you understand?

VICTORIA: This is the law that President Bush passed himself, ma’am. You cannot hang up.

SEAN: And if you were in front of me old lady, man, black, white I would have slapped you by now. Ok?

HELEN: Well, I tell you what.

SEAN: I’m going to pass you to my manager. Hold the ** line, and here he or she comes.

VICTORIA: It’s illegal to ask questions on the verification.

ROBERT: And do this exactly as I tell you and don’t switch up on me again, Ok? Answer me, Ok?!

ARDELLE: I can send you a check!

ROBERT: You’ll never, ever be anything. You’re going to your grave a loser. A big loser. I think you’re terrible.