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THE CHANGING NATURE OF FRAUD IN CANADA

by *Derek E. Janhevich**

HIGHLIGHTS

- In 1996, there were approximately 101,000 frauds reported by the police, accounting for 7% of all property crimes. The total number of frauds represented a rate of 337 per 100,000 population, the lowest rate in twenty years. This downward trend is largely attributed to significant decreases in reporting of cheque frauds.
- Credit card and “other” frauds increased substantially between 1977 and 1986. Despite yearly fluctuations, rates have increased only slightly since 1987. However, credit card fraud rates in particular have increased significantly in the last two years.
- Saskatchewan reported the highest provincial/territorial fraud rate for the fifth consecutive year in 1996 (540 per 100,000 population). Quebec, Newfoundland, Ontario and the Northwest Territories recorded rates below the national average of 337 per 100,000 population.
- Compared to most property crimes, frauds are more likely to be solved by the police. In 1996, nearly two in three (63%) fraud offences were solved by the police, while break and enters (16%), motor vehicle theft (12%), theft over \$5,000 (18%), and theft \$5,000 and under (20%) all demonstrated clearance rates well below this proportion.
- Persons accused of fraud offences are generally older than those accused of other property crimes. The median age for those accused of fraud was 29 years, compared to a median age of 21 for other property offenders.
- Probation was the most common sentence for fraud offences. The median length of a probation sentence was 450 days; the median length for a prison term was 60 days; and the median fine amount was \$200.
- In 53% of cases known to police, fraud incidents were aimed against a commercial enterprise and in a further 28%, the target was a bank or financial institution.

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Introduction

This *Juristat* provides a statistical profile of fraud in Canada. It examines trends in fraud offences, characteristics of incidents and offenders, as well as certain adult court and sentencing information. These data suggest that the nature of fraud offences has changed considerably over the years; however, official police and court data are limited sources of information in some respects. As a result, additional information from qualitative studies is used to supplement the data in order to provide context to the overall issue of fraud and certain aspects of “white collar” crime.¹

Conceptualizing fraud

Before it was criminalized, fraud was first dealt with under private law or civil law. It was in 1892 that an offence of “conspiracy to defraud” was introduced in the first *Criminal Code of Canada*. Fraud is often characterized as a form of “white collar” crime, corporate crime, or organized crime.

**Box 1
Fraud Defined**

The principle data sources for this report are the Uniform Crime Reporting Survey (UCR) as well as the Revised (incident based) UCR survey. Both report three types of fraud: **cheque fraud, credit-card fraud, and “other” fraud.**

Cheque fraud implies the fraudulent use of a promissory note (cheque), traveller’s cheque, money order, postal order or any facsimile of a cheque. This includes all false pretence, forgery, uttering and fraud offences involving cheques.

The term **credit-card** describes a wide assortment of plastic cards (and non-plastic coupons) that are used to obtain credit, money, goods and services, either upon the direct presentation of the card or through an automated teller machine. These include all cards issued by department stores, oil companies, financial institutions, and others. **Credit-card fraud** includes all fraudulent type offences involving the use and/or theft of credit cards.

Any other type of fraud not already mentioned is defined as **other fraud** and could include: criminal breach of trust, false pretences, forgery and uttering, destroying or falsifying books and documents, trademark forgery and frauds, unauthorized use of computers, mail fraud, telemarketing fraud, insurance fraud, fraudulent manipulation of the stock exchange, etc. Unfortunately, these offences are grouped in the surveys together and there is no way of distinguishing one from another.

These three categories will constitute the bulk of the analysis in this *Juristat*. Due to coding criteria of the UCR survey, not all fraud related offences are catalogued under the “fraud” category. Some offences such as “Frauds upon government” and “Forging a passport” are catalogued under “Other Criminal Code” offences, and there is no way to isolate these specific offences from the general categories.

In addition, scoring of these offences often presents difficulty relating to the definition of a separate incident. A single fraud incident can involve multiple fraudulent actions. For example, in credit card fraud cases where one credit card is used over a period of time, only one offence is scored. The revised UCR survey provides a counter to indicate the number of fraudulent actions in a fraud incident.

Although the UCR surveys do not provide a breakdown on the type of fraud committed, the Adult Criminal Court Survey (ACCS) specifies with which *Criminal Code* section that persons appearing in adult court were charged. The ACCS covers only cases heard in adult court, but it can be used as an indicator of the types of fraud charges laid. In 1995-96, the majority of fraud cases were related to common type frauds (s.380 CC).

Type of Fraud in Adult Court Criminal Cases, 1995-1996

Type of fraud/ <i>Criminal Code</i> Section	#	%
s.380 Fraud	9,668	45
s.362 Obtaining by false pretence, fraud, or false statement	2,795	13
s.368 Uttering forged document	2,560	12
s.342 Theft, forgery, etc. of credit card	1,875	12
s.403 Personation with intent	1,644	8
s.367 Forgery	857	4
s.393 Fraud in relation to fares and transportation	592	3
s.364 Fraudulently obtaining food and lodging	592	3
Other	791	4
Total	21,594	100

Source: Canadian Centre for Justice Statistics, Adult Criminal Court Survey, 1995-96

¹ For more details regarding the data sources, refer to the text boxes entitled “Methodological Notes” and “Fraud Defined”.

The concept of white collar crime was first introduced by Edwin Sutherland over half a century ago. In his original explanation, Sutherland (1940) noted that these crimes were actions and conspiracies by the wealthy classes who used their position in society for personal gain without regard for the law. These actions tended to be dealt with in civil law (since most persons were intent on getting back their losses), and were not the subject of criminological study. Over the years, the concept of white collar crime has broadened in scope to include numerous occupational violations of the law, and unlike Sutherland's original concept, such crimes are committed by persons in all social classes (Geis, 1974).

Although fraud and other forms of white collar and corporate crime are not usually viewed in the same light as violent crime or youth crime, they do result in significant costs to society. Additionally, the damage to social relations is often greater than the financial losses, since white collar crimes can violate a sense of trust, lower social morale and have a negative effect on the organization of society (Sutherland, 1940).

More recently, numerous attempts have been made to examine and understand the complex nature of this offence (c.f. Bequai, 1978; Clinard, 1952; Geis & Stotland, 1980). From these efforts, several obstacles to studying fraud have emerged including: the infrequency of reporting, detection, and prosecution; the impact on the victim which is often difficult to assess; and an overall ambivalence over the issue, especially when the general public, law enforcement, and policy makers are more concerned with "conventional" crimes such as street crime, violent crime and youth crime (Nightingale, 1996). Many of these themes will be examined throughout this report.

For the purposes of this *Juristat*, fraud can be defined as any attempt through deceit or falsehood to obtain goods, services or financial gain without legitimate rights (for further information refer to Box 1 - *Fraud Defined*). Fraud incorporates a wide array of criminal activities ranging from simple credit card theft to complex electronic money transfer schemes and personal identity scams.

National Trends: a Twenty Year Perspective

Generally, total reported fraud offences in Canada have shown significant decreases; however, some types of frauds have recently shown different patterns. As will be discussed, numerous factors such as overall under-reporting, levels of police activity, the reporting practices of businesses and corporations, the use of private security agencies, and overall changes in consumer behaviour may all have had an impact on these changing patterns. For instance, various police agencies may have specialized "fraud squads" or a specific type of fraud will periodically be the focus of investigative work (e.g. sting operations) which may increase the likelihood of detection. In other instances, fiscal restraint may render the investigation of such crimes a lower priority, thereby reducing the likelihood of detection. These operational procedures are also common practice vis-à-vis crimes like prostitution and gaming offences.

Box 2 Methodological Notes

The findings in this report are largely drawn from the Aggregate Uniform Crime Reporting (UCR) Survey, the Revised (incident based) UCR Survey, as well as the Adult Criminal Courts Survey (ACCS). Other sources and studies have been referenced in order to provide added contextual and qualitative information otherwise not available in the Canadian Centre for Justice Statistics' surveys. The reader is cautioned to take note of these data sources when referring to the analysis, graphs, and tables.

Aggregate UCR Survey – Since 1962, the UCR has provided basic police-reported information on violent, property and other crimes. This survey records the number of incidents reported by the police. Variables include: the number of reported offences, the number of actual offences (excludes unfounded incidents), offences cleared by charges, persons charged by sex and adult/youth status. Only the most serious offence in an incident is recorded, thus under-representing the volume of less serious offences.

Revised UCR Survey – Since 1988, the revised survey has captured detailed information on individual criminal incidents reported by the police. Variables go beyond those of the aggregate survey and include characteristics of the incidents, victims of violent crime, and accused persons. As a general rule, analysis of revised UCR data is normally conducted on the most serious offence in an incident, however up to four offences (ranked) can be recorded. In 1996, 154 police agencies in six provinces reported to the revised survey, and the collected data represented 47% of the national volume of *Criminal Code* incidents. The reader is cautioned to note that these data are not nationally representative, and other than Quebec, the data are primarily from urban police departments.

Adult Criminal Courts Survey (ACCS) – This survey examines criminal court case characteristics on federal statute charges which are collected by the CCJS in collaboration with provincial and territorial governments responsible for provincial/territorial criminal courts. The main unit of analysis is the case, which is defined as one or more charges laid against an individual which are disposed of in court in the same day. The individuals in question are adults (18 years and over), companies, and youths transferred to adult court. Currently, provincial criminal courts in seven provinces and two territories (representing 80% of the national provincial criminal court case load) report to the ACCS.

Cheque frauds down, credit card frauds up

In 1996, there were a total 101,007 frauds reported by the police, the lowest number of fraud incidents since 1979. Frauds accounted for 7% of all property crimes. The rate of fraud (337 per 100,000 population) dropped by 4% in 1996, the fifth consecutive annual drop, marking the lowest rate in the last twenty years. (Figure 1). Since 1992, the rate has dropped 24% and it remains 32% lower than the 1986 peak rate of 498 per 100,000 population (Table 1).

Despite the significant decrease in fraud offences over the last five years, not all categories of fraud show the same trend. The main contributing factor to the decrease in total fraud offences has been a significant reduction in the number of cheque frauds. An historical examination of the three types of fraud as a proportion of the total number of reported frauds reveals the following picture: In 1977, cheque fraud accounted for 70% of all frauds reported by the police; however, this proportion dropped to 60% by 1986 and currently stands at 40% (Figure 2). In the last decade, the rate (per 100,000 population) of cheque fraud has decreased by more than half (55%) (Table 1).

Table 1



Fraud Trends, 1977 - 1996

Year	Population	Cheque Fraud			Credit Card Fraud			Other Fraud			Total Fraud		
		Number	Rate	% Change of Rate Over Previous Year	Number	Rate	% Change of Rate Over Previous Year	Number	Rate	% Change of Rate Over Previous Year	Number	Rate	% Change of Rate Over Previous Year
1977	23,796,383	59,899	252	1.5	5,672	24	-9.2	19,952	84	8.8	85,523	359	2.5
1978	24,036,347	61,439	256	0.2	5,201	22	24.9	21,917	91	3.6	88,557	368	2.5
1979	24,276,926	62,199	256	6.4	6,562	27	25.0	22,923	94	15.9	91,684	378	10.1
1980	24,593,341	67,025	273	4.2	8,310	34	28.8	26,920	109	12.9	102,255	416	8.5
1981	24,899,999	70,707	284	0.6	10,840	44	32.5	30,780	124	2.2	112,327	451	4.1
1982	25,201,902	72,027	286	-3.7	14,540	58	10.7	31,830	126	-0.3	118,397	470	-1.0
1983	25,456,302	70,047	275	5.4	16,258	64	-0.9	32,065	126	-1.3	118,370	465	2.7
1984	25,701,754	74,541	290	-1.0	15,430	59	-6.0	31,966	124	3.0	122,775	478	-0.6
1985	25,941,647	74,472	287	5.0	15,243	58	-2.2	33,238	128	8.3	123,140	475	5.0
1986	26,203,819	78,957	301	-7.4	14,702	55	-4.8	36,359	139	1.4	130,559	498	-4.6
1987	26,549,745	74,095	279	-2.8	13,286	49	-10.8	37,345	141	1.8	126,142	475	-2.4
1988	26,894,785	72,967	271	-2.5	13,716	50	1.4	38,519	143	-7.0	124,772	464	-3.5
1989	27,379,348	72,453	265	0.7	17,818	64	28.0	36,464	133	4.7	122,633	448	4.9
1990	27,790,593	74,040	266	-0.3	18,544	66	2.9	38,740	139	11.5	130,598	470	3.6
1991	28,120,065	74,659	266	-11.8	16,003	56	-15.0	43,690	155	-3.2	136,893	487	-9.5
1992	28,542,213	66,823	234	-16.6	13,932	48	-14.2	42,910	150	-2.1	125,736	441	-11.3
1993	28,946,768	56,530	195	-18.0	13,438	46	-4.6	42,584	147	-0.2	113,046	391	-9.6
1994	29,255,599	46,872	160	-7.1	15,238	51	12.0	42,933	147	2.6	103,243	353	-0.6
1995	29,615,325	44,076	149	-9.5	17,405	58	12.9	44,610	151	-4.2	103,924	351	-3.9
1996	29,963,631	40,343	135	19.7	17,405	58	144.1	43,259	144	4.0	101,007	337	-6.2
% Change in Rate 1977 to 1986				-55.3			143.7			65.5			38.6
1986 to 1996				-42.5			3.6			72.2			-32.3
1977 to 1996													-6.2
1992 to 1996													-23.5

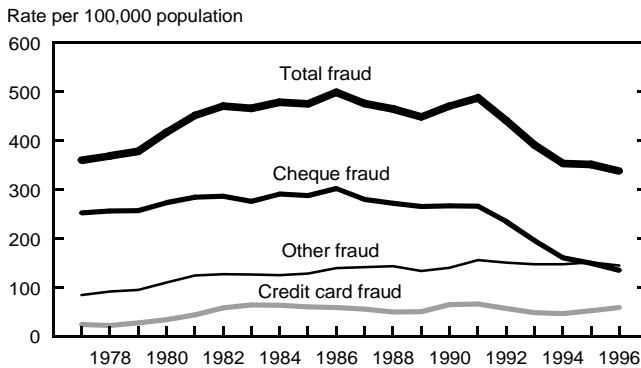
Source: Canadian Centre for Justice Statistics, Uniform Crime Reporting Survey, 1996. Rates are calculated based on 100,000 population.

Credit card offence rates increased dramatically (144%) from 1977 to 1986. The 1996 rate is the same as the 1986 rate; however, during this period substantial increases and decreases are noted. The credit card rate has increased in the last two years, up 12% from 1994 to 1995, and up 13% from 1995 to 1996. (Table 1). As a proportion of the total number, credit card frauds increased from 7% in 1977 to 17% in 1996 (Figure 2).

Like credit card frauds, the rate of "other" frauds increased substantially (66%) from 1977 to 1986, and despite some yearly fluctuations, the rate has only increased slightly (4%) in the last decade. As a proportion of all frauds, this category increased from 23% in 1977 to 28% in 1986, to 43% in 1995 and 1996.

Figure 1

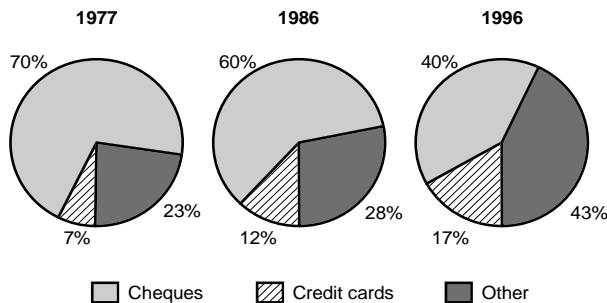
 **Trends in fraud rate, Canada, 1977-1996**



Source: Canadian Centre for Justice Statistics, Uniform Crime Reporting Survey, 1996.

Figure 2

 **Proportion of type of fraud, Canada, 1977, 1986, 1996**



Source: Canadian Centre for Justice Statistics, Uniform Crime Reporting Survey, 1996.

Changing patterns linked to many factors

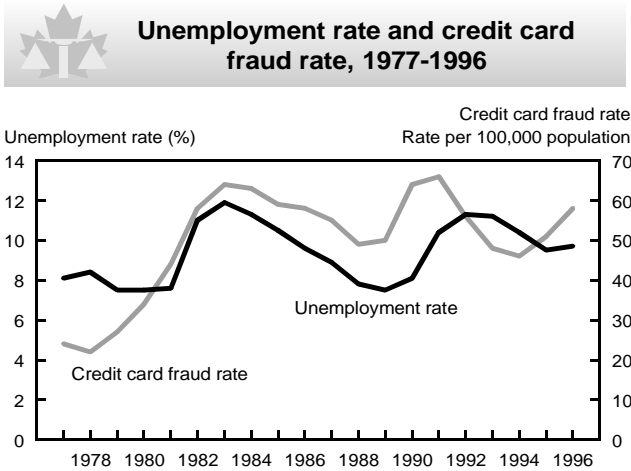
A possible explanation for the decrease in overall reported fraud offences is that the types of frauds being committed have changed dramatically and that these new types of fraud are more difficult to detect. The complexity of science and technology (especially when computer technology is used as an instrument of fraud) may have made it more difficult to track down offenders (Nightingale, 1996). In addition, the levelling off or even dropping of police budgets may have rendered the task an even more difficult one. It may be difficult to generate fraud tracking resources when the public is much more concerned with traditional issues of crime control. Moreover, private policing and security agencies are often hired to investigate frauds, petty thefts and other "white collar" activity in the corporate sector. Corporations may do this in order to assert greater control over the situation and may even be reluctant to let the police or public know of their internal problems fearing a tarnished image (Swol, 1997). Consequently, this could have an impact on fraud statistics reported by the police.

Changes in consumer behaviour and changes in technology have altered the opportunities for fraud offences. For example, new methods of payment (i.e. automated teller machines, increased use of credit cards, automated bill payment, direct withdrawals, etc.) have rendered other forms such as cheques less common. Consequently, this may have had an effect on the decreasing number of cheque frauds being committed each year. In 1994, the Canadian Bankers Association noted that there were approximately 27 million credit cards from financial institutions in circulation, generating over \$60 billion in sales. This compares to 25 million cards in the previous year which brought in sales worth \$40 billion.

Another possible explanation relates to the theory of crime displacement. According to this perspective, changes in criminal opportunities will motivate a significant proportion of offenders to switch criminal activity, and an apparent crime "wave" will parallel decreases in other related offences (Mativat & Tremblay, 1997). The shifts in types of fraud crimes show support for a crime displacement model. However, in one study on crime switching opportunities between stolen credit card offences and counterfeit credit card crimes, Mativat & Tremblay (1997) found little support for displacement theory. The absence of displacement was partly due to low differences in pay-off, as well as a lack of opportunity due to certain offender characteristics. Since no displacement was noticed within a tightly related crime category (credit card theft and counterfeiting), a displacement from cheque to other more sophisticated types of fraud, which are unrelated, would seem unlikely.

An interesting pattern is noted when comparing trends in the unemployment rate and credit card fraud rates. Generally, when the unemployment rate increases or decreases, the credit card rate follows a similar pattern (Figure 3). This suggests a possible link between this particular type of fraud and economic need. This relationship is only noted for credit card fraud.

Figure 3



Sources: Household Surveys Division, Labour Force Survey; Canadian Centre for Justice Statistics, Uniform Crime Reporting Survey, 1996.

Total fraud rates higher in non-Census Metropolitan Areas²

It is a common assumption that crime rates in and around larger urban areas are higher than rates in smaller communities. The RCMP has noted that counterfeit credit card rings in cities such as Vancouver, Toronto, and Montreal, which experience various types of gang activity, present opportunities which are conducive for such criminal activity to flourish (Clarke, 1995:3). A look at 24 of Canada's Census Metropolitan Areas (CMA) reveals that total fraud rates in 1996 are in fact higher in smaller CMAs and non-CMAs than in larger CMAs. Furthermore, non-CMAs have total fraud rates which are higher than the national average.

² To facilitate urban crime analysis, CCJS also uses geographical units known as the Census Metropolitan Area (CMA). A CMA represents an urbanized core of at least 100,000 population and includes adjacent urban and rural areas which have a high degree of social and economic integration. The configuration of such units has facilitated comparisons among different sized communities.

Table 2

Frauds by Census Metropolitan Area (CMA), 1996¹

	Population ²	Cheque Fraud		Credit Card Fraud		Other Fraud		Total Fraud	
		Number	Rate	Number	Rate	Number	Rate	Number	Rate
Larger CMAs									
Toronto	4,410,269	3,407	77	2,253	51	4,839	110	10,499	238
Montreal	3,365,160	3,000	89	3,293	98	3,282	98	9,575	285
Vancouver	1,883,679	1,512	80	1,337	71	2,951	157	5,800	308
Ottawa-Hull	1,039,307	1,018	98	796	77	1,394	134	3,208	309
Edmonton	890,771	1,195	134	1,003	113	1,408	158	3,606	405
Calgary	853,711	1,619	190	657	77	825	97	3,101	363
Quebec	699,035	705	101	327	47	640	92	1,672	239
Winnipeg	680,285	961	141	408	60	445	65	1,814	267
Hamilton	657,230	566	86	231	35	650	99	1,447	220
Total for Larger CMAs	14,479,447	13,983	97	10,305	71	16,434	113	40,722	281
Smaller CMAs									
Kitchener	427,054	471	110	158	37	630	148	1,259	295
St.Catherines-Niagara	422,608	755	179	343	81	443	105	1,541	365
London	420,614	588	140	176	42	583	139	1,347	320
Halifax	344,135	994	289	301	87	527	153	1,822	529
Victoria	315,168	419	133	483	153	741	235	1,643	521
Windsor	294,063	547	186	183	62	317	108	1,047	356
Saskatoon	223,524	731	327	136	61	454	203	1,321	591
Regina	199,243	418	210	8	39	302	152	798	401
St. John's	175,249	148	84	40	23	707	403	895	511
Chicoutimi-Jonquière	167,854	152	91	86	51	87	52	325	194
Sudbury	166,661	155	93	89	53	156	94	400	240
Sherbrooke	148,925	156	105	105	71	119	80	380	255
Trois-Rivières	142,028	151	106	66	46	138	97	355	250
Thunder Bay	130,006	360	277	76	58	294	226	730	562
Saint John	129,380	246	190	59	46	225	174	530	410
Total for Smaller CMAs	3,706,512	6,291	170	2,379	64	5,723	154	14,393	388
Total CMA	18,185,959	20,274	111	12,684	70	22,157	122	55,115	303
Total Non-CMA	11,777,641	20,069	170	4,721	40	21,102	179	45,892	390
Total Canada	29,963,600	40,343	135	17,405	58	43,259	144	101,007	337

Source: Canadian Centre for Justice Statistics, Uniform Crime Reporting Survey, 1996. Rates are calculated based on 100,000 population.

¹ Excludes Oshawa CMA.

² Population estimates are from Demography Division and have been adjusted in situations where policing and CMA boundaries are inconsistent.

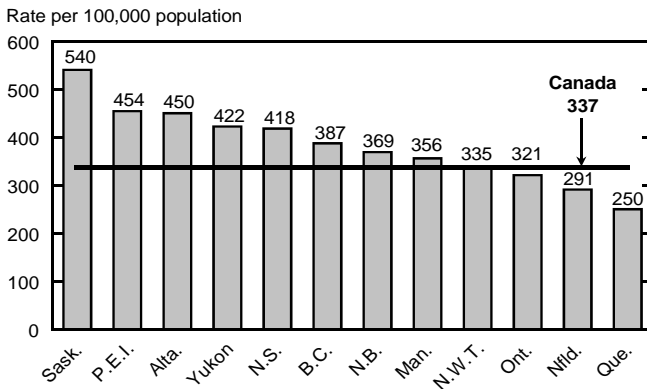
This trend is not apparent in all types of fraud however, as credit card fraud rates are higher in CMAs than in non-CMAs, and higher than the national average. The credit card fraud rate is also higher overall in larger CMAs than in smaller CMAs (Table 2). However, the highest rate of credit card fraud did not occur in one of Canada's largest CMAs. In 1996, Victoria reported the highest credit card fraud rate, and this trend has been consistent since 1991 (when CMA crime data were first available).

Fraud rates highest in Saskatchewan

In 1996, Quebec, Newfoundland, Ontario, and the Northwest Territories had total fraud rates below the national average (Figure 4). Saskatchewan reported the highest provincial rate per 100,000 population for the fifth consecutive year (540), and except for 1987 and 1992, it has maintained this trend since 1981. Unlike the national trend, Prince Edward Island, Newfoundland, and New Brunswick have recorded increases in overall fraud rates in the last ten years.

Figure 4

Fraud rates by province/territory, 1996



Source: Canadian Centre for Justice Statistics, Uniform Crime Reporting Survey, 1996.

Characteristics of Fraud

There are many distinguishing characteristics of fraud offences which make them unique among property crimes. For instance, the overall costs associated with fraud offences, as a direct and indirect consequence of such crimes, may exceed the costs of other property crimes, and in certain types of fraud offences victimization patterns are different. In addition, fraud offenders have a different profile than those apprehended for other types of property crime, such as break and enter or theft. Each of these aspects will be examined in further detail.

The financial losses due to fraud

Even though the social outcry concerning fraud offences is typically less pronounced than for some other crimes, fraud encompasses some heavy costs. Some possible reasons for the lower social concern are numerous: the perceived low level of social harm that results; the tendency to view aspects of the conduct as socially acceptable (e.g. "shrewd economic behaviour"); the lack of sympathy that victims receive because of their possible precipitating behaviours (i.e. "the victim should have known better" or "the company deserved it"); or the sometimes affluent nature of offenders (Nightingale, 1996).

Insurance fraud, for example, is a growing concern for the Insurance Bureau of Canada (IBC) and the Insurance Crime Prevention Bureau. It is believed that at least 10% to 15% of automobile, household and commercial claims are fraudulently fabricated or inflated, costing approximately \$1.3 billion annually to policyholders (Insurance Bureau of Canada, 1996:15, see Box 3).

**Box 3
Facts About Insurance Fraud**

In June 1994, the IBC-backed Canadian Coalition Against Insurance Fraud was founded to implement a series of actions to try and reduce the annual \$1.3 billion cost of property and casualty insurance fraud. With its more than 60 members, the Coalition represents groups affected by fraud including the private insurance industry, police and fire services, consumer advocacy groups and public auto insurers. Actions aimed at curbing the high toll of insurance "scams" include public awareness, changing business practices, improved investigative and enforcement techniques, improved understanding of the problem, and changes to the legal and regulatory environment.

The Coalition defines insurance fraud as: *any act or omission with a view to illegally obtaining an insurance benefit* – in other words, any action where claimants receive money that they were not entitled to. The Coalition's efforts have produced the following:

- Insurance fraud includes a wide array of activities: completely fabricated claims, exaggeration or padding of genuine claims, false statements on insurance applications, and all types of internal fraud.
- Insurance fraud costs approximately \$1.3 billion and an additional \$1 billion per year in police and fire resources. Health costs to victims and fire fighters are other unmeasured costs.
- In North America, insurance fraud is estimated to be second to illegal drug sales in the source of criminal profits.
- All insurance fraud is a crime – including "opportunistic" actions like exaggerating a genuine claim.
- In a 1996 public opinion poll regarding insurance fraud, 43% of Canadians agreed it was easy to successfully defraud an insurance company; 78% understood that fraud had an impact on the cost of insurance; and 50% believed it was common to exaggerate claims

Source: Insurance Bureau of Canada, Canadian Coalition Against Insurance Fraud, 1996

According to the Canadian Bankers Association (CBA), in 1996, credit card frauds (e.g. Visa, Mastercard, American Express) incurred a cost totalling \$83 million, approximately one-third of which stemmed from counterfeiting. This amount is a substantial increase from the \$72.6 million lost in 1995 and the \$28.9 million recorded in 1990 (CBA, Security Division, 1996). Credit card fraud was the most frequent type of external fraud where financial institutions and retail operations fell victim (KPMG, 1997).

Since some fraud incidents involve amounts that run into the multi-million dollar range, and some result in no monetary losses, an average amount is not the best indicator of typical costs of fraud. A better indicator is the median dollar loss which represents the midpoint of values lost per fraudulent incident. In 1996, the median dollar loss per fraudulent incident was \$480. Nearly seven in ten cases of fraud (where the dollar amount was known) involved a dollar value loss of less than \$1000. Approximately 1% involved incidents where the loss was over \$100,000 (Table 3). Some incidents had amounts that reached millions of dollars.

The revised UCR survey indicates that the median loss on a cheque fraud incident was \$462, while the median amount for credit card incidents was higher at \$585. "Other" frauds were lowest at \$325.³

According to KPMG's 1997 Fraud Survey Report, cheque forgery and counterfeiting were the most common types of internal employee fraud, accounting for 27% of all internal fraudulent activity by employees. Internal fraud refers to fraudulent activity occurring within the confines of a particular corporation. The activity may involve either employees or managers.


Frauds have high clearance rates

An incident is considered to be solved by the police or "cleared" when there is sufficient evidence to lay a charge against a suspect. The incident is either cleared by a "charge" or cleared "otherwise". The latter category indicates that despite sufficient evidence to lay a charge against an accused, none was laid due to a number of reasons, such as either the complainant or police refused to lay a charge, the accused was less than 12 years old, or the accused dies before charges were laid.

Property crimes normally have much lower clearance rates than violent and other types of offences. For instance, in 1996, 73% of all reported violent offences were solved by the police, compared to 42% for other *Criminal Code* offences (i.e. mischief, arson, disturbing the peace) and only 22% for all property crimes. Table 4 indicates that in 1996, the clearance rate for fraud offences was much higher than most property crimes (63%). Only possession of stolen goods presented a clearance rate greater than frauds (93%). Approximately 4 in 10 fraud offences resulted in the laying of a charge and a further 20% were cleared otherwise. The proportion of cleared fraud offences was nearly three times that of total property crimes.

³ The reader is cautioned to note that these amounts may be slightly inflated because other criminal events, such as theft, may be included in the fraud incident. Dollar values are calculated for all offences within an incident.

Table 3

 Fraud Offence by Dollar Value of Property Stolen¹, 1996				
Dollar Value Grouping	% Cheque Fraud	% Credit Card Fraud	% Other Fraud	% Total Fraud
< 100	12	14	34	19
100 - 199	13	8	8	11
200 - 499	27	21	13	21
500 - 999	20	20	10	17
1,000 - 4,999	20	30	16	21
5,000 - 9,999	4	4	7	5
10,000 - 99,999	3	2	10	5
100,000 and more	-	-	2	1
Total²	100	100	100	100
Median amount	\$ 462	\$ 585	\$ 325	\$ 480

Source: Canadian Centre for Justice Statistics, Revised Uniform Crime Reporting Survey, 1996. Represents a non-random sample of 154 police agencies accounting for 47% of the national volume of crime. The data are not nationally representative.

¹ Excluded are cases where although a fraud took place, the amount was unknown or no amount was stolen. These incidents represented 22% of the total.

² Due to rounding totals may not add up to 100.

- Amount too small to be expressed.

Table 4

Clearance Status for Property Offences, 1996

Type of Property Offence	Number of Incidents	Cleared by Charge		Cleared Otherwise		Total Cleared	
		Number	%	Number	%	Number	% Total Cleared
Break and enter	396,085	40,853	10	21,244	5	62,097	16
Motor vehicle theft	178,580	14,371	8	7,584	4	21,955	12
Theft over \$5,000	28,144	3,138	11	1,863	7	5,001	18
Theft under \$5,000	821,385	102,226	12	62,614	8	164,840	20
Have stolen goods	30,599	25,238	82	3,071	10	28,309	93
Fraud	101,007	44,072	44	19,735	20	63,807	63
<i>Cheques</i>	40,343	18,036	45	9,533	24	27,569	68
<i>Credit Cards</i>	17,405	6,962	40	2,062	12	9,024	52
<i>Other Frauds</i>	43,259	19,074	44	8,140	19	27,214	63
Total Property	1,555,800	229,898	15	116,111	7	346,009	22

Source: Canadian Centre for Justice Statistics, Uniform Crime Reporting Survey, 1996.

Box 4 Issues Surrounding Computer Related Crime

From a criminal justice point of view, computers and the world of information technology offer numerous practical and legal challenges. They have created new crimes, offered offenders novel ways to achieve old objectives, and provided investigators with a new tool (whether the crime is computer-related or not). Computer related crimes range from theft of components to the actual utilization of various telecommunications tools, internet access, and "hacking" techniques. The theft of computer components may be related to fraudulent practices; however not all computer crimes are frauds.

There is a common misconception that the Internet has created a new type of crime. In fact, the Internet has provided a new avenue for traditional crimes such as hate propaganda, theft, and fraud to flourish. Furthermore, criminal organizations can use the internet to access information, communicate, and facilitate criminal activities. The use of encryptions are often used to mask and hide illegal information (RCMP, 1997).

Telecommunications fraud is a relatively recent development that enables organizations to access telecommunication services by some deceitful act. This is accomplished by technological manipulation (e.g. hacking) or through the theft of activated cellular phones.

Cellular telephones are also subject to the avoidance of billing systems, which is accomplished through the modification of their computer components.

Too often, victims of computer and telecommunication fraud are unable to provide meaningful assistance to police investigators. There are many complex issues that have rendered computer related and cyber related offences undetectable.

Source: Davis & Hutchison, 1997; McPhie, 1996; RCMP, 1997.

Charges lowest in twenty years

Fraud offences have a higher proportion of incidents cleared by charge than most other property crimes. In 1996, the proportion was the lowest in twenty years. Since 1987, the figure has steadily decreased from 56% to 44% in 1996. This general trend is noted for all types of fraud offences. Incidents cleared by charge for credit card frauds (40%) and other frauds (44%) are the lowest in the last ten years. This perhaps reflects the changing nature and type of frauds being committed and the difficulty of detection and investigation compared to ten years ago.

Compared to other property crimes, fraud offences have a higher proportion of incidents that are dealt with in ways other than laying a charge (Table 4). As noted above, there are a number of reasons why charges may not be laid by the police. The revised (incident based) UCR survey provides a breakdown of why some incidents are dealt with in alternate ways.⁴ In 1996, of those incidents that were cleared otherwise, the most common reason was because the complainant preferred not to have charges laid (35%). Other studies suggest that in many of the cases, no charges were laid if offenders agreed to reimburse merchants or commercial enterprises for losses incurred (Morrison and Leroux, 1990). Police used their own discretion not to lay charges in 32% of fraud incidents, and in a further 23%, charges were not laid due to reasons beyond the control of the police department. The remainder were not processed because the accused was already involved in another incident (7%) or due to other reasons (4%).

How many frauds per incident?

A single fraudulent incident can involve multiple fraudulent transactions. For example, the finding, theft, or counterfeit reproduction of cheques or credit cards can result in them being used more than once (McPhie, 1995). A credit card can be utilized in many different stores, and although only one incident of fraud is reported to the police (i.e. the stolen credit card) there may have been numerous victims. In 1996, over eight in ten (84%) incidents of fraud involved the single commission of a fraudulent act. In a further 12%, between two and five frauds were counted for each incident, and the remainder (4%) involved over six fraudulent actions. Credit card fraud reported the highest proportion (26%) of incidents with more than one fraudulent action, and "other" frauds reported the lowest proportion (8%).⁵ Although most fraud incidents involved a single fraudulent action, certain types of fraud, especially credit card, have a broader impact than what may be reflected in reported incidents.

⁴ The reader is cautioned to note that since coverage of the revised UCR survey is not nationally representative, overall data and total proportions will not match those reflected in aggregate UCR data.

⁵ Analysis reflects only those incidents where the number of fraudulent transactions was known.

Box 5
Telemarketing Scams

Project Phonebusters is a National Task Force that has become the central source for telemarketing complaints throughout Canada. It was established in January 1993 by the OPP, RCMP, Industry Canada, Ministry of Consumer and Commercial Relations and the Canadian Banker's Association. Since then, partnerships have been extended to include the Canadian Couriers Association, Alberta Municipal Affairs, and all Better Business Bureaus across North America.

Telemarketing involves the planned and professional use of telephones as a tool to advertise, market, or provide service functions to both consumers and businesses. Telemarketing has made business ventures much more efficient and effective since geographic and physical limitations are eliminated, allowing consumers and businesses to access markets otherwise inaccessible. Telemarketing has become the credit card industry's most important marketing medium (Federal Bureau of Investigation, 1994).

Although businesses utilize multiple telephone solicitations and mass mailings to conduct legitimate business, there are numerous telemarketing schemes that defraud the unsuspecting consumer through misrepresentations and promises. According to Project Phonebusters, telemarketing fraud nets an estimated \$100 million annually in Canada and over \$3 billion in the United States. Illegal telemarketers entice victims by offering tantalizing deals or prizes such as savings bonds, financial investments, trips, cars, boats, jewellery, and products of all varieties. Not only are persons called, but post cards and packages of the "sweepstakes" variety are also often used as a tool to attract potential buyers. The illegal telemarketers request cheques, credit card numbers, or money orders as a means to pay for the items purchased. Subsequently, the goods are either never delivered or are not of the value originally outlined in the product description. For example, toy boats or cheap jewellery might be sent.

Higher-loss victims are persuaded to purchase land, stocks, or phoney franchises. Payments are made by cheque or wire transfer and each scam can be worth thousands of dollars. Project Phonebusters notes that at least one Canadian per week loses more than \$50,000, and entire life savings are sometimes lost. In 1996, Phonebusters reported 15,578 complaints of fraud attempts and 2,676 victims of fraud in Canada, totalling over \$6.9 million in losses.

The average dollar loss per victim was approximately \$2,600. Often, the victims are elderly people who are less apt to report their victimization due to embarrassment. Phonebusters estimates that only 5% of all complaints (and attempts) are reported to proper authorities. A 1992 U.S. study indicated that 31% of those defrauded due to telemarketing scams reported their victimization (as cited in McPhie, 1995).

In addition to "telephone" telemarketing scams, the use of internet web sites as a means of purchasing goods and services is also inundated with fraudulent practices. These sites often request credit card numbers as the mode of payment.

Industry Canada has produced a video concerning various fraudulent scams. The video entitled "SCAM ALERT" can be obtained at no cost from Industry Canada by calling (800) 348-5358. Here are a few helpful "Dos and Don'ts" on how to avoid victimization of telemarketing fraud:

DON'T:

- Believe skeptical offers that sound "too good to be true";
- Be fooled by a promise of a valuable prize in return for a low cost purchase;
- Give out information about your credit card number/expiry date, bank account information over the telephone or through the internet unless you know with whom you are dealing;
- Be pressured into making any decisions with which you feel uncomfortable;
- Be afraid to hang up the phone;
- Invest or spend more money than you can afford to lose;

DO:

- Ask companies their name, address, phone number, and references or any other information that may be helpful;
- Check with your local Better Business Bureau or any consumer protection agency before any purchase is made;
- Report incidents of telemarketing fraud to your local Better Business Bureau and police department.

Source: Phonebusters - a National Task Force Combating Telemarketing Fraud, 1997

The Victim

The victim of a fraud may be an individual, an identifiable group of persons, a corporate entity, or a group of corporations (Nightingale, 1996). In addition, there are several indirect repercussions from fraud that affect the larger public. When dealing with the corporation as victim, shareholders, employees, and creditors are all affected and the general public bears much of the cost as well (Nightingale, 1996). The consequences of such economic crimes inevitably lead to an increase in the price of goods, insurance premiums, taxes, and the overall cost of living.

An individual can be the victim of a credit card fraud even though banks or financial institutions incur the costs. Moreover, telemarketing frauds are one example of how *specific* individuals can be directly victimized by fraudulent practices. Project Phonebusters reports that between January and May 1997 over half (51%) of the victims of telemarketing

scams that paid out money were over 60 years old and this age group represented 73% of those victimized for scams worth over \$5,000 (See Box 5).

Because of its unique victim characteristics, fraud is relatively different from other "conventional" crimes, since often, the victim is not initially aware that harm of a criminal nature has been committed (Nightingale, 1996).⁶ Often, the victim is reluctant to pursue the cases through legal channels due to either an overall ambivalence toward the conduct or for fear that their own negligence may have been a contributing factor to the commission of the offence (Walsh and Schram, 1980). Furthermore, victims may feel that criminal justice processes may not repair the harm done in terms of returning financial losses.

⁶ The reader is cautioned to note that much of Nightingale's analysis is based on fraud offences of a commercial or corporate nature.

Box 6
The Changing Nature of Credit Card Fraud

Losses due to credit card fraud are rising dramatically and are of great concern to the industry. Up until the early 1990's, most credit card fraud was based on lost or stolen cards. Since then, counterfeit and altered credit cards have surfaced as the newest type of credit card fraud. Although UCR police reported statistics do not specify the type of credit card fraud, the Canadian Banker's Association (CBA) reports that counterfeiting credit cards is one of the fastest-growing categories of fraud in Canada and around the world. Overall, police reported statistics indicate that incidents of credit card fraud have increased (up 13% from 1995 to 1996), and information provided by the CBA indicates the same trend. In 1992-93, the CBA reported 55,475 occurrences of credit card fraud, 23% which resulted from counterfeiting. In 1995-96 the number increased to 77,740 occurrences. The proportion of those stemming from counterfeiting increased to 32%.

Counterfeit credit cards take on various forms. The basic principle behind each type of counterfeit credit card fraud is the theft of data, i.e. account numbers. These data, with the appropriate help of equipment such as embossing machines and laser copiers is then used in various schemes. There are "pure" counterfeit cards, which are manufactured through a silk screen process and then encoded with actual credit card customer data. A second type involves the use of genuine cards (stolen or expired) that are altered and re-impressed (embossed and/or encoded) with different numbers. A third technique simply involves the use of an ordinary plastic card onto which a number is appended. This white plastic fraud is used for fictitious purchases which requires the collusion of a merchant or an employee. According to the 1993 Organized Crime Committee Report (OCCR) launched by the Canadian Association of Chiefs of Police (CACF), and the CBA, the production of high-quality "pure" counterfeit cards is the fastest growing type of counterfeiting activity.

According to the CBA (1996), the theft (23.5%), loss (22.2%), and counterfeiting (32.2%) of cards were by far the most common types of credit card fraud, accounting for nearly 8 in 10 of all reported occurrences. Other types of fraud reported by the CBA include "non-receipts" (8.6%), whereupon a mailed card does not reach its destination; "fraudulent applications" (3.3%), which involves the impersonation of credit worthy applicants; "no card frauds" (7.7%), in which someone else's card number is utilized to make purchases via the telephone, mail, or internet. Other type of credit card fraud was reported in 2.5% of occurrences.

Sources: CBA, 1996; Mativat & Tremblay, 1997; Clarke et al, 1995; CACF, 1993.

Commercial establishments most frequent target

In 53% of cases known to police, fraud incidents were aimed against a commercial enterprise and in a further 28%, the target was a bank or financial institution (Table 5). For the most part, these two ranked first and second in all types of fraud, except "other" frauds. Although commercial establishments fell victim to "other" frauds in nearly half the cases, non-commercial establishments, such as government departments or social service agencies, were ranked second (22%).

Given the breakdown of the targets, what proportion of these crimes were committed internally or were work place related? Results from Peat Marwick Thorne's (KPMG) 1997 Fraud Survey Report found that of the private and public companies responding, 62% reported that fraud had taken place in their organization compared to 52% from the previous year. The majority (55%) of the costs incurred from such behaviour was due to internal fraud (38% stemming from employees and 17% from management). It is important to note that although there was a higher proportion of incidents of employee misbehaviour, the average cost per incident of management fraud was significantly higher.

Offenders most often males

As with most other crimes, males represent the majority of those charged (71%). Compared to the total of property crimes and overall Criminal Code offences however, female involvement in fraud is relatively high (Table 6). Only the category of theft \$5,000 and under represented a proportion of females charged that was slightly higher than frauds (31%). Among fraud offences, the proportion of women charged is highest for cheque frauds.

Table 5



Fraud by Target of Incident, 1996

Target of Incident ¹	% Cheque Fraud	% Credit Card Fraud	% Other Fraud	% Total Fraud
Commercial Establishments ²	57	47	52	53
Banks/Financial Institutions	35	43	11	28
Residences ³	6	6	12	8
Non-Commercial Establishments ⁴	2	3	22	9
Other	-	1	3	1
Total⁵	100	100	100	100

Source: Canadian Centre for Justice Statistics, Revised Uniform Crime Reporting Survey, 1996.

Represents a non-random sample of 154 police agencies accounting for 47% of the national volume of crime. The data are not nationally representative.

¹ Includes only those incidents where the target was known.

² Includes any enterprise which is in business to market (retail or wholesale) or service products and whose function is to make profit for the owner(s). Examples include department stores, restaurants hardware stores, gas stations, convenience stores, etc.

³ Includes single homes, apartment units and commercial residences.

⁴ Refers to enterprises that are not profit-oriented. Examples include churches or other religious institutions, government departments, penal institutions, private sector social service agencies, etc.

⁵ Due to rounding, totals may not add up to 100.

- Amount too small to be expressed.

Table 6

Offence	Total Persons Charged	% Males	% Females
Break and Enter	46,229	93	7
Motor Vehicle Theft	15,894	92	8
Theft over \$5,000	3,246	81	19
Theft \$5,000 and under	106,376	69	31
Have Stolen Goods	22,910	86	14
Fraud	30,509	71	29
<i>Cheques</i>	10,894	68	32
<i>Credit Card</i>	5,203	74	26
<i>Other Fraud</i>	14,412	72	28
Total Property	225,164	78	22
Total Criminal Code	518,876	81	19

Source: Canadian Centre for Justice Statistics, Uniform Crime Reporting Survey, 1996.

Various studies have examined characteristics of fraud offenders. Nightingale (1996) notes that the usual perpetrator of fraud within the commercial context is a privileged, high status, well-educated male who occupies a position of respect in society. However, in their study on the notion of crime displacement between stolen based (and altered) credit cards and “pure” counterfeit credit cards, Mativat & Tremblay (1997) note that the makeup of individuals involved is somewhat different for the two types of credit card offences, although the perpetrators are mainly “street offenders”. Evidently, fraud is not a homogeneous category of crime. It ranges from simple credit card theft to complex technological scams and counterfeiting schemes; hence painting an accurate picture of the typical “fraud artist” is a difficult task. Fraud schemes for example require more planning, sophistication, resources, and capital investment, and the fraud “artist” would not be representative of the “typical” offender (See Box 6).

Just as most fraud incidents involved a single fraudulent action, most incidents involved a single person. Eight in ten (81%) involved only one accused, while the remaining two in ten involved multiple accused persons. Credit card offences had the highest proportion of multiple accused persons per fraudulent incident (25%).

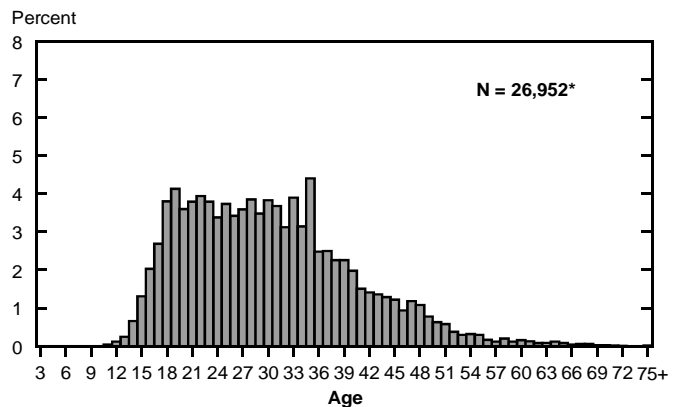
The median age of accused is 29 years old

As might be expected, persons accused⁷ of fraud offences are older than those apprehended for other property crimes. The median age for those accused of fraud was 29 years, compared to 21 for those apprehended for other property crimes. Figures 5 (a) and 5 (b) illustrate proportional age distribution of persons accused of fraud and those accused of other property crimes. It is also interesting to note that over two thirds of fraud offences are committed by persons over the age of 24 while 60% of other property type crimes are committed by those aged 24 and under. Furthermore, those between the ages of 25 to 39 accounted for half of all persons accused of fraud, but represented only 25% of the total population in 1996.

⁷ An accused is a person who has been identified as suspect in an incident and against whom a charge has been laid or could be laid in connection with that incident.

Figure 5a

Persons accused of fraud by age, 1996

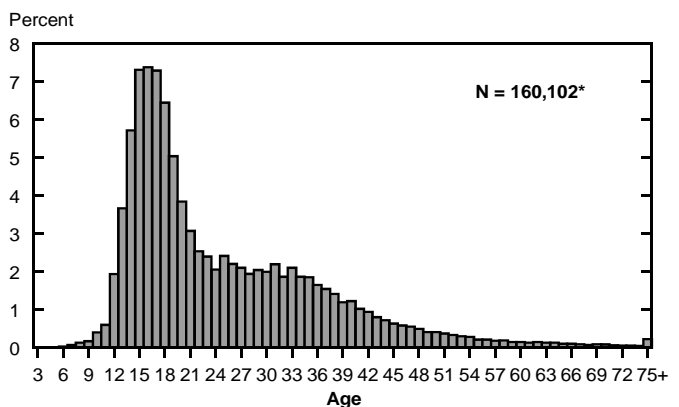


Source: Canadian Centre for Justice Statistics, Revised Uniform Crime Reporting Survey, 1996.

* Excludes unknown age (n = 276).

Figure 5b

Persons accused of other property crimes by age, 1996



Source: Canadian Centre for Justice Statistics, Revised Uniform Crime Reporting Survey, 1996.

* Excludes unknown age (n = 361).

Sentences for Fraud

In 1995-96 adult provincial criminal courts in participating jurisdictions disposed of 71,645 fraud charges which accounted for 22,198 cases heard in adult criminal courts. Whereas the vast majority (97%) were processed in provincial courts, a small number (723) made their way into Superior Court.

Approximately two-thirds of fraud cases result in conviction

Almost two-thirds (63%) or 13,425 of all cases heard in adult provincial courts resulted in a finding of guilt. This proportion is similar to all federal statute cases (64%) and to all property offence related cases (65%). The dispositions for the remainder of fraud cases included stayed/withdrawn (31%), acquittal (2%) and other (5%).

Probation most common sentence

In the participating jurisdictions, probation was given as the sole sentence or as part of a combination of sentences in 60% of all convictions (Table 7). Prison was given (as the only sentence) in 36% of the convicted fraud cases. Overall, prison was given in 37% of property crime convictions and in 40% of violent crime convictions.

The median length for probation sentences was 450 days which is somewhat higher than the median length for all cases of property crimes (365 days). The median length of all cases that resulted in a prison sentence was 60 days compared to 89 days for all property crimes, and the median amount of fine for all fraud cases was \$200, the same amount for all property crimes.

Summary

The focus of this *Juristat* was to present a statistical profile of fraud in Canada with emphasis on the changing nature of this criminal offence. Generally, total reported fraud offences have shown significant decreases in the last ten years. A major contributing factor to this decrease has been the substantial decline in cheque frauds. Other types of frauds demonstrate different trends. Credit card offences have

increased significantly in the last two years, while the last ten years have demonstrated some substantial yearly fluctuations, leaving the 1996 rate slightly higher than ten years ago. "Other" frauds have demonstrated less significant increases in the last ten years.

The changing patterns and overall decline in frauds may be linked to a number of factors. Changes in consumer behaviour, such as a reduced reliance on cheques as a method of payment is one possible explanation to the dramatic reductions in reported cheque frauds. On the other hand, increased circulation of plastic payment cards, as well as new fraudulent methods of counterfeiting these cards, could help explain the recent increase in credit card frauds. Other factors that may contribute to the overall changes in fraud rates include: overall under-reporting due to company reporting practices; increased reliance on private security; the difficulties in detecting and investigating more sophisticated and technologically advanced fraudulent methods; the levelling or even the decrease in police operational budgets; and the difficulty in keeping up with fraud tracking devices.

According to banking and insurance groups, fraud incurs total financial costs that run well over the billion dollar mark and according to others, it contributes to overall social disorganization. Despite the drastic financial costs and the social consequences, fraud continues to be a crime which generates less social concern than other crimes such as youth violence. The reasons are plenty: such offences may be less threatening than more visible and potentially harmful types; some aspects of fraudulent behaviour may be viewed as socially acceptable behaviour; and often victims are not persons but companies.

Given our rapidly changing society, the changing nature of fraud will also continue to change. Future research considerations must take this into account.

Table 7

Offence Type	Total Cases	Prison		Probation		Fine		Restitution		Other		Unknown	
		#	%	#	%	#	%	#	%	#	%	#	%
		Break and Enter	9,866	6,571	67	6,121	62	879	9	939	10	3,225	33
Arson	291	159	55	218	75	33	11	19	7	133	46	6	2
Fraud	13,425	4,781	36	8,099	60	3,404	25	3,019	22	5,907	44	484	4
Possess Stolen Property	8,910	3,826	43	3,780	42	2,983	33	481	5	2,691	30	332	4
Theft	31,661	9,993	32	13,498	43	11,558	37	2,047	6	11,551	36	1,706	5
Property/Damage/Mischief	8,742	1,747	20	5,277	60	3,052	35	2,679	31	4,070	47	335	4
Total Property Crime	72,895	27,077	37	36,993	51	21,909	30	9,184	13	27,577	38	3,073	4
Total Violent Crime	42,576	16,969	40	28,765	68	9,806	23	1,032	2	19,416	46	1,472	3

Source: Canadian Centre for Justice Statistics, Adult Criminal Court Survey, 1995-96.

¹ Percentages do not add up to 100 because multiple sentences are counted.

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