

INTERNET AUCTION FRAUD

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Key Findings

- Internet auction fraud entails 64% of all Internet fraud that is reported.
- Complaints against individual subjects, as opposed to complaints against businesses, account for 84% of all complaints received.
- Over 1.3 million transactions a day take place on Internet auction sites. However, less than 1% of these transactions result in fraud.
- Of all Internet auction fraud reported, 34% of the victims do not know the gender of the subject they are complaining about.
- Of all victims complaining about Internet auction fraud, 25% do not know the physical address of the subject they are complaining about and 14% of the victims that have a physical address of the subject are listing an address containing a P.O. box.
- Most items that are up for bid by subjects of Internet auction fraud fall into six major categories. These six categories include the sale of small stuffed animals “Beanies” (27%), video consoles/games/tapes (24%), laptop computers (18%), cameras/camcorders (14%), desktop computers (9%), and jewelry (8%). Even though Beanies had the highest percentage at 27%, they accounted for the least amount of money lost out of the six categories. Laptop computers accounted for the most money lost from these categories.
- Money orders or personal checks were listed as method of payment by 80% of the victims that reported Internet auction fraud.
- A typical profile of a subject of Internet auction fraud is an individual, as opposed to a business. The individual is a male auctioning video games/consoles/tapes, laptop computers, or beanies. He only gives an EMail address for contacting him, but if a physical address is given, it will probably be a P.O. Box address in the US - probably California, Colorado, Florida or New York. He will possibly have an E-Mail address domain of aol.com, yahoo.com, or hotmail.com. Additionally, he will ask the buyer to pay by money order or check.

Internet Auction Fraud

Online auctions have transpired into a very lucrative business. Many are making a living at buying/selling through online auction houses. Millions of online auction items are up for bid daily and include items from all around the world. This phenomenon keeps growing daily as more buyers and sellers flock to these online auction houses. This activity is offering great opportunities for buyers and sellers. Sellers are able to have their posted item viewed by millions of people and buyers are able to purchase hard to find items and/or items at discounted prices. However, these online auctions are also giving perpetrators another avenue to perpetrate fraud.

Internet auction fraud is currently the number one fraud committed over the Internet. The Internet Fraud Complaint Center (IFCC) lists auction fraud entailing 64% of more than 30,000 complaints received. A market research company, eMarketer, in a recent study (January 2001) estimated auction fraud entailing 87% of all online fraud in 2000.¹ Internet auction fraud has cost consumers almost \$4 million for calendar year 2000 and this loss amount keeps escalating.² During 2001, the IFCC alone has received over 4,000 complaints from January 2001 through April 2001 on auction fraud with total losses from these complaints exceeding \$3.2 million. The average loss per complaint amounts to \$776. Also, these losses are from the victims that have *reported* Internet auction fraud, so this number may be much higher from the victims that do not report the fraud.

Is Internet auction fraud as bad as it seems or is it based on sheer volume? The numbers/percentages make the fraud out to be an epidemic in proportion. This report/analysis will help answer this question, as well as, many other questions about Internet auction fraud. The purpose of this study is to inform the reader about what Internet auction fraud involves, the extent of Internet auction fraud, what a typical profile of a subject and victim of Internet auction fraud is, and what questions the reader should answer before bidding. *This study was limited to the resources available and interviews conducted. All information incorporated into this report/analysis is derived from the IFCC unless otherwise stated.*

What is Auction Fraud and How is it Perpetrated?

An Internet auction is defined as items that are offered for sale on an Internet auction house with the process of bidding against others to receive the item. Internet auctions can be business-to-consumer or consumer-to-consumer. In business-to-consumer auctions the business/web site itself physically has the merchandise, will accept payment for the items, and takes care of delivery. In consumer-to-consumer auctions the seller physically has the merchandise, not the web site. After the auction is over, the seller is responsible to deal directly with the buyer concerning payment and delivery.

¹ eMarketer, *The ePrivacy and Security Report*, January 2001.

² Federal Trade Commission, *Consumer Sentinel - Amount Paid for Calendar Year 2000*, URL: https://cs.sentinel.gov/csweb/owa/Trend%20Data/IR_Cal_2000/dojircy00por.pdf, January 2001.

Internet auction fraud involves *non-delivery*, *misrepresentation*, *triangulation*, *fee stacking*, *black-market goods*, *multiple bidding*, and *shill bidding*:

- *Non-delivery* involves the seller placing an item up for bid when, in fact, there is no item at all. As a result, the item is never delivered to the buyer after he/she purchases the item. Additionally, if the buyer pays by credit card the seller obtains their name and credit card number.
- *Misrepresentation* occurs when the seller's purpose is to deceive the buyer as to the true value of an item. This can be as simple as listing false information about the item that is up for bid. It can involve sellers using pictures that are not the actual picture of the item up for bid. Also, the seller might alter the picture after it is taken to make the item appear in better condition than it really is.
- *Triangulation* involves three parties: the perpetrator, a consumer, and an online merchant. The perpetrator buys merchandise from an online merchant using stolen identities and credit card numbers. Then, the perpetrator sells the merchandise at online auction sites to unsuspecting bidders (buyers). Next, the perpetrator has the buyer wire transfer him the money and then sends the merchandise to the buyer. Later, the police come, question the unsuspecting buyer, and collect the stolen merchandise to keep for evidence. The buyer and merchant end up the victims.
- *Fee stacking* involves the seller adding hidden charges to the item after the auction is over to obtain more money. Instead of a flat rate for postage and handling, the seller adds separate charges for postage, handling, and the shipping container. As a result, the buyer has now paid a lot more for the item than what he/she had anticipated.
- Subjects are also offering *black-market goods* for sale on Internet auction sites. These goods include copied software, music CD's, videos, etc. The goods are delivered without a box, warranty, or instructions.
- Some subjects use *multiple bidding* to buy an item at a lower price. This occurs when a buyer places multiple bids (some high and some low) on the same item using different aliases. The multiple high bids by the same buyer cause the price to escalate, which scares off other potential buyers from bidding. Then, in the last few minutes of the auction the same buyer withdraws their high bids, only to purchase the item with their much lower bid.
- Finally, *shill bidding* is intentional fake bidding by the seller to drive up the price of his/her own item that is up for bid. This is accomplished by the sellers themselves making bids on their own items, and/or someone that is

associated with the seller making bids to purposely drive up the price of the seller's item.

As listed, Internet auction fraud is perpetrated several ways, but most entail *non-delivery* of the purchased item. A seller posts an item up for bid. Whoever wins the auction (buyer) receives an E-Mail from the online auction house stating he/she won the auction and that he/she needs to contact the seller. The buyer contacts the seller stating he/she won the auction and asking what he/she needs to do to claim their item. The seller informs the buyer how he/she wants him/her to pay for the item and where to send the money. Then, the seller states how and when delivery will occur, but only after payment is received.

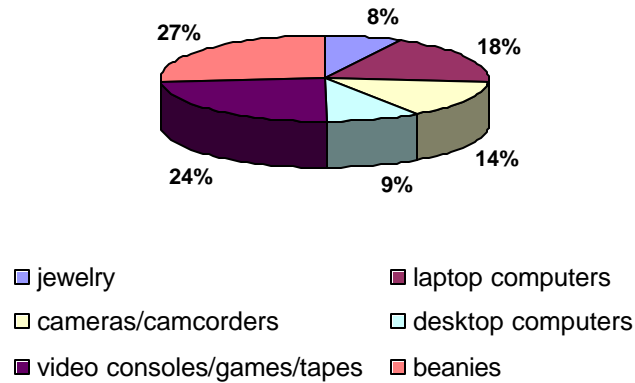
Next, the buyer does exactly what the seller asks and sends the seller payment for the item that he/she won. Then, the buyer waits for the item to be delivered by the date promised. When the expected date for delivery rolls around, the item is never received from the seller. Subsequently, the buyer contacts the seller, probably by E-Mail because this is usually the only information the buyer might have on the seller. Several different things could happen at this point - the buyer may find the seller's E-Mail account is no longer valid or the seller's E-Mail is still legitimate, but the return E-Mail states her/she is no longer in business, had to file for bankruptcy. When/if the buyer finally does get in contact with the seller, he/she states there has been a delay or problem at the factory/manufacturer and issues a new delivery date. When the new delivery date comes and no merchandise is delivered, the buyer again contacts the seller. The seller gives another reason for the delay. This keeps happening until the buyer realizes a fraud has occurred.

What Internet Auction Fraud Items Are Up For Bid?

Although many different items are auctioned by sellers who commit fraud, six different major categories tend to appear more than others. These six major categories include Beanies, cameras/camcorders, desktop computers, jewelry, laptop computers, and video consoles/games/tapes. Out of these six major categories of Internet auction fraud, the sale of Beanies accounts for 27%. This is followed by video consoles/games/tapes (24%), laptop computers (18%), cameras/camcorders (14%), desktop computers (9%) and jewelry (8%).

Figure 1

Internet Auction Fraud Items



The total losses of these six major categories from January 2001 to March 2001 due to Internet auction fraud alone exceeded \$684,000. Over \$253,300 of this total has been lost with laptop computers being the item up for bid. The average loss per laptop computer from fraud is \$1,280. The total dollar amount loss from laptops is followed by video consoles/games/tapes, which resulted in losses exceeding \$116,800. Even though video consoles/games/tapes is second to laptop computers for total dollar amount loss, it is next to last in average dollar amount loss at \$448. Cameras/camcorders resulted in losses of \$106,898, which averaged \$685 per camera/camcorder auctioned. The auctioning of desktop computers resulted in losses of \$96,556, which is an average of \$966 per auctioned desktop. Next, jewelry losses equaled \$81,873, which ranks next to last in total loss amount. However, the average loss per jewelry item auctioned, \$952, is ranked third on the list for average per item auctioned. Even though Beanies accounted for the highest percentage (27%) of all six major categories, the item resulted in the least amount of loss at \$28,670. This is an average of \$101 per Beanie item auctioned, which is also the lowest average dollar amount loss per item.

Table 1: Internet auction fraud Items with total loss amount per category

Items	Loss Amount	Avg. Per Item
Laptop computers	\$253,361	\$1,280
Video consoles/games/tapes	\$116,869	\$448
Cameras/camcorders	\$106,898	\$685
Desktop computers	\$96,556	\$966
Jewelry	\$81,873	\$952
Beanies	\$28,670	\$101

Where Are Internet Auction Fraud Victims/Subjects Located?

Internet auction fraud victims are located in all fifty US states. California tops the list of victim locations with 14% residing there. California is followed by Texas (6%), New York (6%), Florida (6%), and Pennsylvania (5%). The least amount of Internet auction fraud victim location is in Rhode Island, South Dakota, and Vermont.

Subjects of Internet auction fraud are also listed in all fifty US states. Topping this list again is California with 20%. This state was followed by subjects residing in Colorado (10%), Florida (8%), New York (8%), and Texas (4%). The least amount of Internet auction fraud subject location is in Alaska, North Dakota, South Dakota, Vermont, and Wyoming.

Victims living in the US constitute 93% of all Internet auction fraud complaints received at the IFCC. In addition to the US, complaints have been received from 30 different countries since the IFCC opened May 8, 2000. The US is followed by victims living in Canada (2%), and the Ukraine (1%). Other countries where victims of Internet auction fraud reside include American Samoa, Australia, Estonia, Great Britain, Italy, Japan, Portugal, Romania, and South Africa.

Since opening May 8, 2000, the IFCC has received complaints on subjects of Internet auction fraud from 31 different countries. As with the victims, the US absorbs the most subjects at 91%. Subjects residing in Romania (4%) and Canada (2%) follow the US. Other countries where subjects of Internet auction fraud live include Belarus, Indonesia, Latvia, Lithuania, Ukraine, United Kingdom, New Zealand, Spain, Sweden, and Taiwan.

Figure 2

Location of Victims

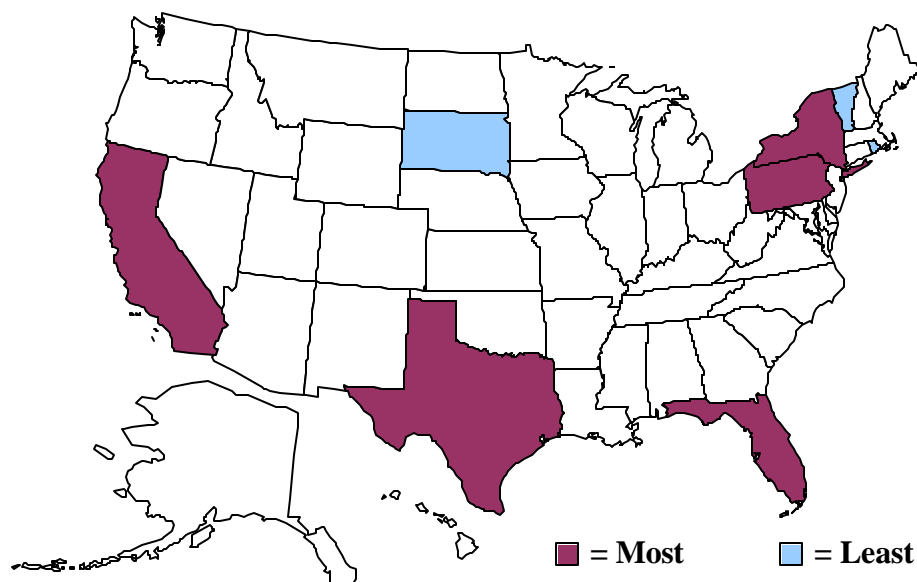
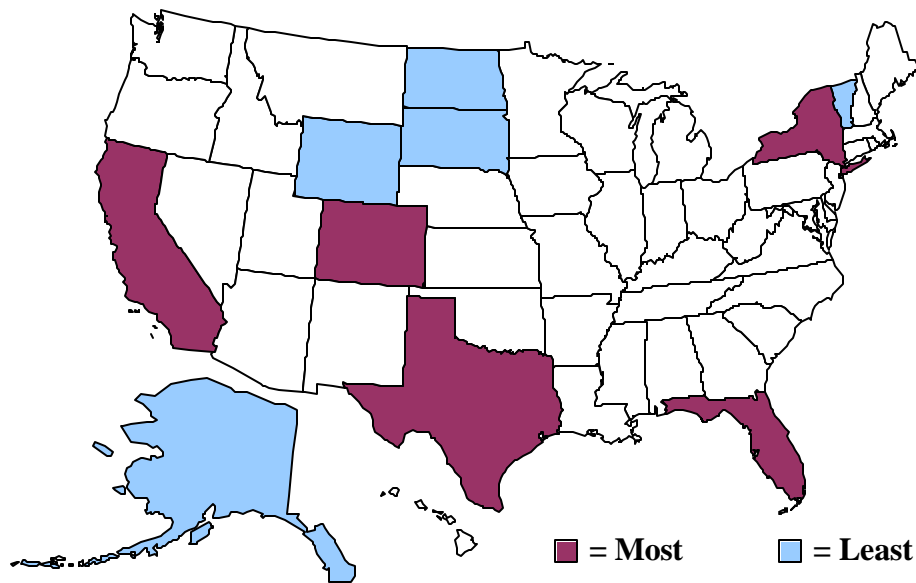


Figure 3

Location of Subjects



Are Subjects Individuals or Businesses?

Of all Internet auction fraud, 84% of the subjects are listed as individuals and the remaining 16% are businesses. As such, an analysis was conducted of all Internet auction fraud on subjects, entailing both individuals and businesses, that list a US address. From this analysis, California tops the list for location of subjects including individuals and businesses. California is followed by Colorado, Florida, and New York for location of subjects including individuals and businesses. It should be noted that California entailed a significantly higher percentage of Internet auction fraud complaints against businesses located there (28%) than individual subjects residing in California (18%).

In contrast, Colorado and Illinois have a higher percentage of Internet auction fraud complaints against individual subjects residing in these states than businesses located there. Complaints on individual subjects residing in Colorado incorporate 13% of all complaints on individual subjects, while complaints on businesses located in Colorado entail 10%. Likewise, complaints on individual subjects residing in Illinois entail 4%, while complaints on businesses located there entail only 1%.

Additionally, 26% of all victims of Internet auction fraud do not know the physical address of the individual subject. Of the victims that do know the individual subject's address, 15% are listing an address containing a P.O. box. In comparison, 19% of all victims of Internet auction fraud do not know the physical address of the business they bought from. Of the victims that know the address of the business, 11% are listing an address containing P.O. boxes.

The result when combining the two different subjects (individual and business), 25% of all victims complaining about Internet auction fraud do not know the physical address of the subject. Of the victims that do know the subject's address, 14% are listing the physical address entailing a P.O. box. Also, victims do not have a physical address for an individual subject 7% more often than not having a physical address for a business. Finally, when victims do know the subject's physical address, individual subjects are listing an address containing a P.O. box 4% more often than businesses listing an address containing a P.O. box.

What E-Mail Domains Are the Subjects Using?

Subjects of Internet fraud are using a variety of different E-Mail domains. However, over 5,400 subject E-mail domains were analyzed. From these, six different E-Mail domains appeared more than others, aol.com, hotmail.com, yahoo.com, cs.com, home.com, and earthlink.net.

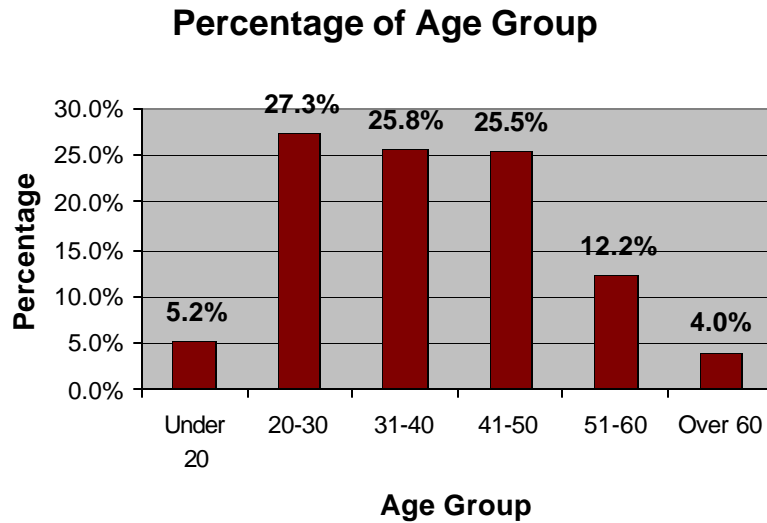
Out of all the EMail domains analyzed, aol.com consisted of 27%. Aol.com was followed by hotmail.com (17%), yahoo.com (11%), cs.com (5%), home.com and earthlink.net at 1%. The remaining 38% consisted of a variety of different E-Mail domains.

What are the Ages of the Victims?

The 20 to 30 age group accounts for 27% of all Internet auction fraud victims that reported to the IFCC. This age group is followed by the 31 to 40 age group (26%), the 41 to 50 age group (26%), the 51 to 60 age group (12%), the under 20 age group (5%), and the over 60 age group (4%).

As a result, 79% of Internet auction fraud victims fall between the ages of 20 to 50. When comparing Internet auction fraud to all types of Internet fraud, the 20 to 30 age group for victims of Internet auction fraud is 3% *higher* than the same age group for all types of Internet fraud. Additionally, there are 5% *fewer* Internet auction fraud victims over the age of 30 than victims of all types of Internet fraud over the age of 30.

Figure 4

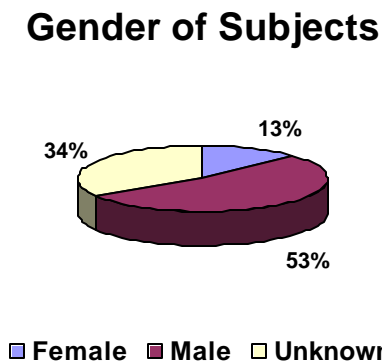


What are the Genders of the Victims and Subjects?

Male victims of Internet auction fraud consume 65% of all complaints received at the IFCC, while female victims entail the remaining 35%. A difference occurs when comparing these percentages to percentages of all types of Internet fraud. There are 7% more female Internet auction fraud victims than female victims of all types of Internet fraud or 7% less male Internet auction fraud victims than male victims of all types of Internet fraud.

Male subjects of Internet auction fraud make up 53% of all subjects, while female subjects consume 13%. A remarkable 34% of all Internet auction fraud reported to the IFCC by victims do not know the gender of the subject they are complaining about.

Figure 5



What Method of Payments Are Victims Using?

Money orders were listed as the method of payment to subjects by 48% of the victims that reported Internet auction fraud. Money orders were followed by personal checks (32%), cashier's check (7%), credit card (6%), and cash (3%).³

When comparing method of payment from Internet auction fraud to Internet fraud, two big differences appear. First, of the victims reporting *all types* of Internet fraud, 16% listed money orders as their method of payment compared to 48% of Internet auction fraud victims, a 32% difference. Secondly, only 6% of the victims reporting Internet auction fraud specified credit cards as method of payment to subjects, where as, 31% of the victims reporting *all types* of Internet fraud recorded credit cards as their method of payment, a 25% difference.⁴

What is the Extent of Internet Auction Fraud?

To answer this question several Internet auction sites were contacted. They were informed that the FBI is trying to establish an industry average for what percent of Internet auction transactions involve fraud. As such, they were asked the following questions, "Out of the total auction transactions that occur, what percent are fraudulent?" and "What is the average total number of auction transactions that occur during a year?"

From these interviews, it is estimated that over 500 million transactions occur annually at online auction sites and this number only continues to rise. This amounts to over 1.3 million transactions a day. However, less than 1% of these transactions actually result in reported fraud. Percentage wise, Internet auction fraud is not as big a problem as it first appeared because it is based on sheer volume. However, this sheer volume still results in several thousand fraudulent transactions a year.⁵

What is a Typical Profile of a Subject and Victim?

A typical profile of a *subject* of Internet auction fraud is an individual, as opposed to a business. The *subject* will be a male auctioning video games/consoles/tapes, laptop computers, and/or beanies. He only gives an E-Mail address for contacting him, but if you do get a physical address it will probably be a P.O. Box address in the US, probably California, Colorado, Florida or New York. He will possibly have an E-Mail address domain of aol.com, yahoo.com, or hotmail.com. Additionally, he will ask the buyer to pay by money order or check.

A typical profile of a *victim* of Internet auction fraud is a male between the ages of 20 to 30. Also, the individual is trying to buy one of the following items with average selling/bidding prices, video games/consoles/tapes (\$448), laptop computers (\$1,280), or

³ National Fraud Information Center, Internet Fraud Watch, *2000 Internet Fraud Statistics*, URL: <http://www.fraud.org/internet/It00totstats.htm>.

⁴ Federal Trade Commission, *Consumer Sentinel – Consumers Who Reported Method of Payment for Calendar Year 2000*, URL: https://cs.sentinel.gov/csweb/owa/Trend%20Data/IR_Cal_2000/dojircy00por.pdf, January 2001.

⁵ Phone interviews with several industry-leading Internet auction sites, March 2001 – May 2001.

beanies (\$101). The individual lives in the US, possibly California, Texas, New York, or Florida and will pay by money order or check.

Questions to Consider Before Bidding:

- *Do you understand exactly how the auction works?* Internet auction sites are set up differently depending on what type of auction it is. Find out and understand as much as possible about how the auction works, what your obligations are as a buyer, and what the seller's obligations are before you bid.
- *Do you know what actions the web site/company takes if you encounter a problem before, during, or after the auction?* Read the web sites' disclaimers. Remember, these auction sites are a third party and may not be able to resolve disputes with items that are purchased. Consider insuring the transaction and shipment. Several auction sites offer insurance for buyers to cover purchases up to a certain amount.
- *Do you have more information about the seller than just an E-Mail address?* Find out as much as possible about the seller, especially if the only information you have is an E-Mail address. If it is a business, check the Better Business Bureau where the seller/business is located.
- *What does the feedback say about the seller?* Examine the feedback on the seller. However, keep in mind, some sellers post information about themselves and/or have family/friends post information about them to make them more appealing. Also, be cautious if it is a new seller.
- *What method of payment is the seller asking from the buyer and where is he/she asking to send payment?* Find out this information before you bid on an auction. If payment method is cash and/or payment is asked to be delivered to a P.O. box, be very cautious about bidding. Also, be cautious about bidding if the seller does not want to give you an address or method of payment. Additionally, paying by credit card may allow you to dispute the charge.
- *Is the seller located outside the US?* If a problem occurs with the auction transaction, it could be much more difficult if the seller is located outside the US because of the difference in laws.
- *Do you have information about delivery, warranties and returns?* Again, find this information out before you bid. Ask the seller about when delivery can be expected and if there is a problem with the merchandise is it covered by a warranty or can you exchange it.
- *Does the auction price include shipping and delivery costs?* Find out if shipping and delivery are included in the auction price or are additional costs so there are no unexpected costs.

- *Is the seller asking for personal information?* There should be no reason to give out your social security number or drivers license number to the seller. Some auctions are set up by perpetrators to steal identities.