ECONOMIC AND FINANCIAL CRIME

Economic and financial crimes cost American individuals and businesses billions of dollars every year. Official sources of U.S. crime data from the National Crime Victimization Survey (NCVS) and the Uniform Crime Report (UCR) primarily focus on traditional property crimes such as burglary and theft. The NCVS property crimes include burglary, property theft, and motor vehicle theft that occur against household residents age 12 and older. The UCR property crimes include the NCVS crimes as well as arson and include individuals of all ages as well as non-individual victims such as commercial entities. Bank robberies constitute another form of traditional property crime for which the FBI collects information. Various forms of fraud—including mortgage, health care, mass marketing, and securities and commodities fraud—can generate massive losses to individual and corporate victims. It is widely believed by researchers that financial crime is underreported, and these crimes can be difficult to investigate and prosecute. Successfully prosecuted fraud cases, however, can result in billions of dollars in criminal restitution, fines, and civil settlements, as well as millions of dollars in seizures and civil restitution. As technology expands into all aspects of Americans' daily lives, it also plays a growing role in the commission of many financial crimes. Offenders can use a wide variety of Internet-based tools such as spyware, malicious codes, viruses, worms, and malware to commit fraud, scams, identity theft, and other crimes.

Property Crimes

- Property crimes reported to police in 2012 resulted in an estimated $15.5 billion in losses.[1]
- According to the FBI, of all property crimes in 2012, larceny-theft accounted for 68.5 percent.[2]
- In 2012, the average dollar loss due to arson reported to police was $12,796.[3]
- According to the NCVS in 2012, households in the two lowest income categories (less than $7,500 per year and $7,500 to $14,999 per year) had the highest overall property victimization rates (253.5 and 233.3 per 1,000 households, respectively), compared to households in the two highest income categories ($50,000 to $74,999 and $75,000 or more), which had the lowest overall property victimizations rates (149.4 and 148.1 per 1,000 households, respectively).[4]

Bank Robberies

- The FBI reported a total of 5,014 bank robberies in 2011. Of these, 4,495 were commercial banks, 105 savings and loan associations, 398 credit unions, and 16 mutual savings banks.[5]
- Eighty-nine percent of total incidents of bank robberies resulted in cash, securities, and checks—including traveler's checks—being stolen. Of the incidents where money/negotiable instruments[6] were taken, law enforcement agencies reported full or partial recovery of these losses in 21 percent of cases (973 incidents out of 4,534).[7]
- A total of $38,343,502 was taken in these incidents of bank robbery in 2011. Of this amount, law enforcement reported $8,070,887 in recovered money/negotiable instruments.[8]

1 Federal Bureau of Investigation, *Crime in the United States, 2012,* "Property Crime," (Washington, DC: U.S. Department of Justice, 2014), accessed June 17, 2014, http://www.fbi.gov/about-us/cjis/ucr/crime-in-the-u.s/2012/crime-in-the-u.s.-2012/property-crime/property-crime.

2 Ibid.

3 Federal Bureau of Investigation, *Crime in the United States, 2012,* "Arson," (Washington, DC: U.S. Department of Justice, 2014), accessed June 17, 2014, http://www.fbi.gov/about-us/cjis/ucr/crime-in-the-u.s/2012/crime-in-the-u.s.-2012/property-crime/arson.

4 Generated from Bureau of Justice Statistics NCVS Victimization Analysis Tool, accessed June 17, 2014, http://www.bjs.gov/index.cfm?ty=nvat.

5 Federal Bureau of Investigation, "Bank Crime Statistics (BCS)," (Washington, DC: U.S. Department of Justice, 2012), accessed June 17, 2014, http://www.fbi.gov/stats-services/publications/bank-crime-statistics-2011/bank-crime-statistics-2011.

6 Money/negotiable instruments include cash, securities, checks, food stamps, and other property.

7 Ibid.

8 Ibid.

Fraud

- During 2011, an estimated[9] 10.8 percent of adults (25.6 million people) were victims of one or more types of fraud for a total of 37.8 million estimated incidents of fraud.[10]
- In a survey of 3,638 adults age 18 and over in 2011, respondents who had experienced a serious negative life event[11] in the last two years were more than 2.5 times as likely to have experienced fraud as those who did not suffer such an event.[12]
- In 2013, consumers reporting fraud to the Federal Trade Commission lost a total of more than $1.6 billion dollars.[13]
- In 2011, corporate crime cases investigated by the FBI resulted in 242 indictments filed and 241 individuals convicted of corporate crimes.[14] These cases resulted in $2.4 billion in restitution orders and $16.1 million in fines from corporate criminals.[15]

9 The estimate is based on a 2011 survey of 3,638 adults age 18 and older.

10 Keith B. Anderson, "Consumer Fraud in the United States, 2011: The Third FTC Survey," (Washington, DC: Bureau of Economics, Federal Trade Commission, 2013), i, http://www.ftc.gov/sites/default/files/documents/reports/consumer-fraud-united-states-2011-third-ftc-survey/130419fraudsurvey_0.pdf.

11 Serious negative life events include divorce, death of a family member or close friend, serious injury or illness in the family, or loss of a job.

12 Ibid., v.

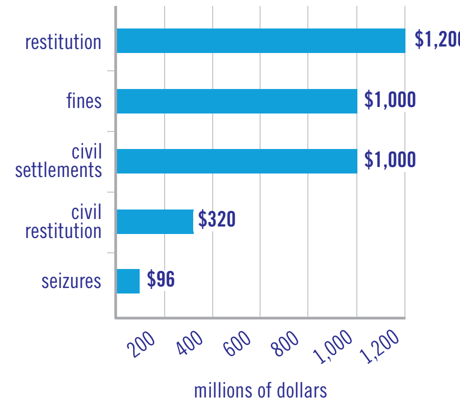
13 Federal Trade Commission, *Consumer Sentinel Network Data Book for January–December 2013,* (Washington, DC: 2014), 8 , accessed June 17, 2014, http://www.ftc.gov/sentinel/reports/sentinel-annual-reports/sentinel-cy2012.pdf.

14 Corporate crimes include falsification of financial information of public and private corporations, self-dealing by corporate insiders, and obstruction of justice designed to conceal these criminal activities. For a detailed list, see pages 6 and 7 of the FBI's *Financial Crimes Report to the Public, Fiscal Years 2010–2011.*

15 Federal Bureau of Investigation, *Financial Crimes Report to Public: Fiscal Years 2010–2011,* (Washington, DC: U.S. Department of Justice, 2012), 7, accessed November 1, 2014, http://www.fbi.gov/stats-services/publications/financial-crimes-report-2010-2011/financial-crimes-report-2010-2011.pdf.

- In Fiscal Year 2011, 2,690 healthcare fraud cases investigated by the FBI resulted in 1,676 indictments and 736 individuals convicted of healthcare fraud.[16] These cases resulted in $1.2 billion in restitution, $1 billion in fines, over $1 billion in civil settlements, $320 million in civil restitution, and $96 million in seizures.[17]

FINANCIAL PENALTIES FOR 2,690 CASES OF HEALTHCARE FRAUD IN 2011



- In the first 10 months of the fiscal year 2013, the FBI filed 2,001 prosecutions of white-collar crime. Of the prosecutions filed, 17.7 percent (355 cases) were financial institution fraud, 17 percent (341 cases) were defined as "other" fraud, 12 percent (240 cases) were mortgage fraud, 11 percent (221 cases) were healthcare fraud, and 4.8 percent (97 cases) were securities fraud.[18]
- The number of FBI pending mortgage fraud cases increased from 1,199 cases in Fiscal Year 2007 to 2,691 cases in Fiscal Year 2011. Fiscal Year 2010 had the most cases with 3,129.[19]

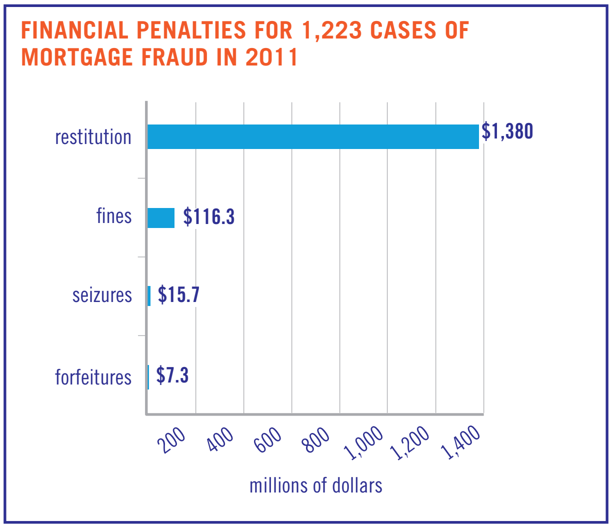
16 Healthcare fraud includes billing for services not rendered, upcoding of services, upcoding of items, duplicate claims, unbundling, excessive services, medically unnecessary services, and kickbacks. For more details, see pages 19–21 of the FBI's *Financial Crimes Report to the Public, Fiscal Years 2010–2011.*

17 Ibid., 18.

18 Transactional Records Access Clearinghouse, *Slump in FBI White Collar Crime Prosecutions,* Table 2, accessed June 18, 2014, http://trac.syr.edu/tracreports/crim/331/.

19 Federal Bureau of Investigation, *Financial Crimes Report to Public: Fiscal Years 2010–2011,* 24.

- In Fiscal Year 2011, 2,691 mortgage fraud cases investigated by the FBI resulted in 1,223 indictments and 1,082 individuals convicted of mortgage fraud.[20] These cases resulted in $1.38 billion in restitution, $116.3 million in fines, $15.7 million in seizures, and $7.33 million in forfeitures.[21]



- In Fiscal Year 2013, the Justice Department opened 1,013 new criminal healthcare fraud investigations involving 2,041 potential defendants. A total of 718 defendants were convicted of healthcare fraud-related crimes and nearly $2.3 billion in taxpayer dollars was recovered.[22]
- In Fiscal Year 2011, 1,719 financial institution fraud cases investigated by the FBI resulted in 521 indictments and 429 individuals convicted of financial institution fraud.[23] These cases resulted in $1.38 billion in restitution, $116.3 million in fines, and seizures valued at $15.7 million.[24]
- In Fiscal Year 2011, 1,846 securities and commodities fraud cases investigated by the FBI resulted in 520 indictments and 394 individuals convicted of securities and commodities fraud.[25] These cases resulted in $8.8 billion in restitution orders, $36 million in recoveries, $113 million in fines, and $751 million in forfeitures.[26]
- Prosecutions of white-collar criminals recommended by the FBI are down substantially. From Fiscal Year 2012 to 2013, there was a 6.8 percent decrease in the number of white-collar crime prosecutions. There was a 1.2 percent decrease from 5 years ago and a 45.2 percent decrease in the past 10 years (since 2003).[27]
- In 2010, the Mortgage Fraud Working Group, comprising federal agencies, conducted a national operation known as Operation Stolen Dreams. In this record-breaking sweep, there were 1,500 criminal defendants and 400 civil fraud defendants that resulted in the recovery of nearly $200 million dollars.[28]

Identity Theft

The definition of identity theft includes the following incidents: unauthorized use or attempted use of an existing account, such as a credit or debit card, checking, savings, telephone, online, or insurance account.[29]

- Approximately 16.6 million people, or 7 percent of persons age 16 or older, were victims of identity theft in 2012.[30]

20 Mortgage fraud includes schemes that employ some type of misstatement, misrepresentation, or omission related to a real estate transaction that is relied on by one or more parties to the transaction. For more details, see page 22 of the FBI's *Financial Crimes Report to the Public, Fiscal Years 2010–2011*.

21 Ibid., 26.

22 Department of Health and Human Services and Department of Justice, "Health Care Fraud and Abuse Control Program Annual Report for Fiscal Year 2013," (2014), 87-88, accessed June 17, 2014, http://oig.hhs.gov/publications/docs/hcfac/FY2013-hcfac.pdf.

23 Financial institution fraud includes insider fraud (embezzlement), check fraud, counterfeit negotiable instruments, checking kiting, and fraud contributing to the failure of financial institutions.

24 Ibid., 31.

25 Securities and commodities fraud includes investment fraud such as Ponzi schemes and pyramid schemes as well as foreign currency exchange fraud, precious metals fraud, market manipulation, and late-day trading. For more details, see pages 11–13 of the FBI's *Financial Crimes Report to the Public, Fiscal Years 2010–2011*.

26 Ibid., 13.

27 Transactional Records Access Clearinghouse, *Slump in FBI White Collar Crime Prosecutions,* Table 1, accessed June 18, 2014, http://trac.syr.edu/tracreports/crim/331/.

28 Financial Fraud Enforcement Task Force, *First Year Report, 2010,* 3.5, accessed June 18, 2014, http://www.stopfraud.gov/docs/FFETF-Report-LR.pdf.

29 Bureau of Justice Statistics, *National Crime Victimization Survey, Identity Theft Supplement, 2012: Victims of Identity Theft,* (Washington, DC: U.S. Department of Justice, December 2013), accessed September 25, 2014, http://www.bjs.gov/content/pub/pdf/vit12.pdf.

30 Ibid.

- Eighty-five percent of theft incidents involved the fraudulent use of existing account information, such as credit card or bank account information.[31]
- Victims who had personal information used to open a new account or for other fraudulent purposes were more likely than victims of existing account fraud to experience financial, credit, and relationship problems.[32]
- The level of emotional distress victims experienced was related to the length of time spent resolving problems. Forty-seven percent of identity theft victims who spent six months or more resolving financial and credit problems experienced severe emotional distress as a result of the theft.[33]
- Persons in households with higher annual incomes ($75,000 or more) were more likely to experience identity theft than persons in lower-income households.[34]
- Fewer than 1 in 10 (about 9 percent) of identity theft victims reported the incident to police in 2012.[35]
- Direct and indirect losses from identity theft totaled $24.7 billion in 2012.[36]

Internet-Based Financial Crimes

- A projected 58.2 million American adults had at least one malware infection that affected their home computer in 2012.[37] The overall cost of repairing these damages was nearly $4 billion. In comparison, American adults incurred $1.2 billion in damages from spyware in 2010.[38]
- In 2012, 9.2 million American adults were tricked into submitting personal data to criminal websites. Hundreds of thousands of Americans lost money from a bank account as a result.[39]
- In 2013, the Internet Crime Complaint Center ("IC3") received 262,813 consumer complaints. Of the filed complaints, 119,457 reported a financial loss. The total estimated loss is $781.8 million.[40] The median dollar loss in 2013 was $510, down slightly from $600 in 2012.[41]
- According to IC3, from 2012-2013, there was a 48.8 percent increase in reported loss as a result of computer crimes.[42]
- The most common type of complaints according to IC3 are auto-auction fraud—when criminals attempt to sell vehicles they do not own—with 14,169 or 5.4 percent of the complaints. The next most common complaint are real estate rental scams, with 10,384 or 4 percent of the complaints.[43]
- According to IC3, in 2013 the most costly Internet scams were romance scams (costing approximately $81.8 million). The next most costly were the auto-auction fraud (costing approximately $51.6 million).[44]
- According to IC3, the age groups reporting the most computer crimes in 2013 were the 40- to 49-year-olds (21.2 percent of cases) and the 50-59 year olds (21.1 percent).[45]
- IC3 received about 47 complaints per day in 2012 about spam e-mails purportedly sent from the FBI. Victims reported losing more than $6,600 to this type of scam every day.[46]

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31 Ibid.

32 Ibid.

33 Ibid., Figure 9.

34 Ibid.

35 Ibid., Figure 10.

36 Ibid.

37 Consumer Reports, "Consumer Reports Survey: How Safe is Your Home Computer?," *Consumer Reports Magazine* (May 2013), accessed November 1, 2014, http://www.consumerreports.org/cro/news/2013/05/consumer-reports-survey-how-safe-is-your-home-computer/index.htm.

38 Consumer Reports, "State of the Net, 2010," *Consumer Reports Magazine* (June 2010), accessed November 1, 2014, http://www.consumerreports.org/cro/magazine-archive/2010/june/electronics-computers/social-insecurity/state-of-the-net-2010/index.htm.

39 Exact numbers of people who lost money from these scams were not provided. Consumer Reports, "Consumer Reports Survey: How Safe is Your Home Computer?"

40 Internet Crime Complaint Center, *2013 Internet Crime Report*, (National White Collar Crime Center, 2014), 5, accessed June 17, 2014, http://www.ic3.gov/media/annualreport/2013_ic3report.pdf.

41 Ibid., 5.

42 Ibid., 3.

43 Ibid., 8,11.

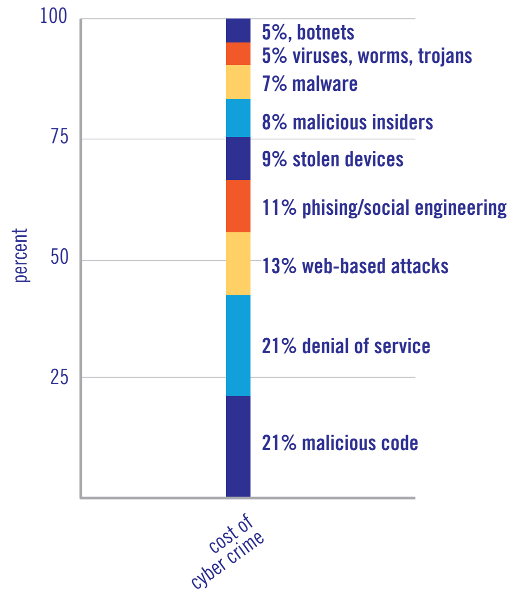
44 Ibid., 8-9

45 Ibid., 6.

46 Consumer Reports, "Consumer Reports Survey: How Safe is Your Home Computer?," 9.

- The Internet was the source of information about fraudulent offers in approximately 33 percent of incidents in 2011, compared to approximately 20 percent in 2005.[47]
- In a 2012 nationally representative survey of over 2,000 adults age 40 and older, 84 percent of respondents reported being solicited to participate in a potentially fraudulent offer. Approximately 11 percent of respondents reported losing what they considered to be a significant amount of money after engaging with an offer.[48]
- According to a 2013 industry-sponsored report, the average annual cost of cyber crime for a sample of 60 large corporations was $11.6 million, with a range from $1.3 million to $58 million per company.[49] This amount is up from $8.9 million in 2012 or a 26 percent increase equivalent to $2.6 million. [50]
- Sixty companies reported approximately 122 successful cyber attacks a week, or 2.0 per company per week. This figure is up from the 2012 report, in which companies reported 102 successful attacks a week.[51]
- The costs attributed to these cyber crimes can be divided as follows: 21 percent were due to malicious code attacks; 21 percent were due to denial of service attacks; 13 percent were due to web-based attacks; 11 percent were due to phishing and social engineering; 9 percent were due to stolen devices; 8 percent due to malicious insiders; 7 percent were due to malware; 5 percent were due to viruses, worms, and trojans; and 5 percent were due to botnets.[52]

ANNUALIZED PERCENTAGE COST OF CYBER CRIME BY ATTACK TYPE, 2012



- According to the 60 companies surveyed, the most costly form of Internet crime in 2013 was denial of services, which cost approximately $243,913. The second most costly was malicious insiders, which cost approximately $198,769.[53] ★

47 Anderson, *Consumer Fraud in the United States, 2011*, iii.

48 "Financial Fraud and Fraud Susceptibility in the United States: Research Report from a 2012 National Study," (New York: Applied Research & Consulting LLC, 2013), 3, accessed November 1, 2014, http://www.finrafoundation.org/web/groups/sai/@sai/documents/sai_original_content/p337731.pdf?utm_source=MM&utm_medium=email&utm_campaign=Foundation_News_091213_FINAL.

49 Ponemon Institute, *2013 Cost of Cyber Crime Study: United States,* (2013), 1, accessed June 17, 2014, http://media.scmagazine.com/documents/54/2013_us_ccc_report_final_6-1_13455.pdf.

50 Cyber crimes are defined here as criminal activity conducted via the Internet. Ibid., 1.

51 Ibid., 1.

52 Ibid., Figure 9.

53 Ibid., Figure 10.