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## WCC Issue

Telemarketing Fraud

## Definition

Telemarketing fraud is a term that refers generally to any scheme to "deprive victims dishonestly of money or property or to misrepresent the values of goods or services."

## How It Happens

Traditionally fraudulent telemarketers have operated out of boiler rooms. "Boiler room" operations involve rented offices with banks of telephones operated by high-pressure salespersons who peddle investment offers, charity solicitations, and telephone billing scams to name a few. Some boiler rooms employ a multi-tier approach with customers. After a less experienced caller makes an initial contact, more seasoned telemarketers handle sales, follow-ups, verifications, and reloads. All fraudulent operators, however, are persuasive and persistent in order to swindle as many people as possible.

Boiler rooms represent the ideal office setup for fraudulent telemarketers. Typically, such offices consist of an open space with numerous phone lines and few furnishings. Once fraudulent telemarketers suspect that they are under investigation, or that their frauds are about to be detected, they can quickly disband their operation and relocate. The California Department of Corporations has reported that 100 new boiler rooms have opened in the last year in Los Angeles alone. Other areas experiencing growth of boiler room operations include Florida, Canada, and increasingly, the Caribbean.

As law enforcement and regulatory authorities have become more vigorous in prosecuting fraudulent telemarketing, most fraudulent telemarketers have increasingly engaged in what's known as "rip-and-tear." Rip-and-tear telemarketers will utilize pay telephones, mobile phones, cloned phones, and long distance cards to carry out their fraudulent schemes. Fraudulent telemarketers try to make it appear that their service or charitable cause is worth the money that they are asking the consumer to send. Because these telemarketers' only object is to maximize their personal profits, even if the consumer suffers substantial financial harm, fraudulent telemarketers will typically adopt one or both of two approaches. The first is to fail to give the consumer anything of value in return for their money. The second is to provide items far below what the consumer had expected the value to be.

## Cost/Statistics

The United States Congress discovered that consumers and others lose an estimated \$40 billion to telemarketing fraud each year. This is more than \$ 1 million per hour. There are nearly 140,000 telemarketing firms in the country. Up to 10 percent, or 14,000 may be fraudulent. The U.S. Department of Justice estimates that one out of six consumers is cheated by telemarketing criminals every year.

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<sup>1</sup> United States—Canada Cooperation Against Cross-Border Telemarketing Fraud, Report of the United States—Canada Working Group to President Bill Clinton and Prime Minister Jean Chretien  
<http://www.usdoj.gov/criminal/uscwgrtf/intro.html>

<sup>2</sup> Hebe R. Smyth, Fighting Telemarketing Scams, 17 Hastings Comm. & Ent. L.J. 347, 351 (1994), citing Telefraud: They've Got Your Number, consumer Rep. At 289 (1987)

<sup>3</sup> Anita O'Riordan, National White Collar Crime Center, "Telemarketing Fraud" [www.nw3c.org/telemarketing.htm](http://www.nw3c.org/telemarketing.htm)

<sup>4</sup> United States Department of Justice. "What is Telemarketing Fraud?",  
[www.usdoj.gov/criminal/fruad/telemarketing/whatis.htm](http://www.usdoj.gov/criminal/fruad/telemarketing/whatis.htm)

<sup>5</sup> AARP, "Facts About Fraudulent Telemarketing" <http://www.aarp.org/fraud/home.htm>

<sup>6</sup> Ibid

<sup>7</sup> AARP, "Telemarketing Fraud", [www.aarp.org/fraud/home/htm](http://www.aarp.org/fraud/home/htm)

According to the National Fraud Information Center the top telemarketing scams for 2000 were:<sup>8</sup>

Prizes/Sweepstakes  
Magazine sales  
Credit Card Sales  
Work-at-Home  
Advance Fee Loans  
Telephone Slamming  
Credit Card Loss Protection  
Buyers Clubs  
Telephone Cramming  
Travel/Vacations

These top ten frauds of 2000 make up 80 percent of all telemarketing complaints taken at the National Fraud Information Center.

## High Profile Examples/Case Studies

Operation Disconnect, was announced on March 4, 1993, and was the first nationwide undercover operation that the FBI conducted against telemarketing fraud.<sup>9</sup>

In Operation Disconnect FBI undercover agents pretended to sell a special machine that would allow fraudulent telemarketers to dial as many as 12,000 calls per hour. Such a machine would have increased the ability of telemarketing schemes to contact large numbers of prospective victims throughout the United States. Undercover agents were able to obtain many damaging and revealing admissions from the telemarketers about the fraudulent and criminal nature of their business activities. As a result of Operation Disconnect, several hundred fraudulent telemarketers were successfully prosecuted, in some cases receiving prison sentences as high as ten years.<sup>10</sup>

## "For More Information" Links

United States Department of Justice  
<http://www.usdoj.gov/criminal/fraud/telemarketing/>

AARP  
<http://www.aarp.org/fraud/home.htm>

National Fraud Information Center  
<http://www.fraud.org/telemarketing/telestat.htm>

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<sup>8</sup> National Fraud Information Center Jan-Dec. "2000 Telemarketing Fraud Statistics".  
[www.fraud.org/telemarketing/00statsfinal.htm](http://www.fraud.org/telemarketing/00statsfinal.htm)

<sup>9</sup> United States Department of Justice "What's the Department of Justice Doing About Telemarketing Fraud?"  
[www.usdoj.gov/criminal/fraud/telemarketing/doj.htm](http://www.usdoj.gov/criminal/fraud/telemarketing/doj.htm)

<sup>10</sup> Ibid