Business Fraud

Business Identity Theft and Misrepresentation

NASS Business Identity Theft Forum:

Preventing and Protection in State Policy-Making Efforts

Bob Beckett

Atlanta, Georgia Oct 17, 2011

NASS
National Association of Secretaries of State

© Dun & Bradstreet 2011

D&B

Start with a premise…

- One of the fundamental services that we (D&B, NASS & IACA members, formation/registered agents and others) collectively provide a structure, an environment or climate for businesses to effectively compete and thrive.
- We collectively provide a level of confidence in commerce
- Those who seek to use us as part of their fraud and dampen business confidence should be stopped, without causing undue process or slowdown for legitimate business (few/many)
- By working together, we can continue to provide levels of trust, confidence and success
- Like fair elections… This is an awesome responsibility

High Risk Business Activity / Business Fraud including business identity theft and misrepresentation is on the rise…

- **Overview**
  - **D&B investigates, confirms and reports high risk business activity.**
    - **Types include:**
      - **Business Deterioration – i.e., financial distress…**
      - **High Risk-Newsworthy – i.e., Criminal events…**
      - **High Risk – i.e., Deception/Misrepresentation…**
      - **Information Alerts – Id Theft…**
      - **Bankruptcy – Business Chapter 7 / 11 filings**
  - **Looking back at the last 10 years at these types of high risk business activity within the United States, reveals 654,204[1] confirmed/reported entities and with an unfavorable upward trend:**

Full Year	2007	2008	2009	2010
# Businesses	45K	55K	74K	108K (140% rise over 2007)

- **Commentary**
  - **As you might expect, as the economy experiences difficulties… we see increases in the unfavorable trend of business fraud**
  - **We are also seeing new and creative methods being used by fraudsters**
  - **We are seeing a more "organized" approach to business fraud**
  - **While we see geographic pockets, business fraud does not have boundaries (States/Country)**
  - **Generally, business fraud does not get adjudicated and often is grouped into bad-debt-write-off**
  - **No central repository, like consumer identity theft exists**

[1]Note: Not included here are un-known or un-confirmed fraud cases and first-payment defaults

Specific to certain related types of business-fraud we see trends increasing and that system changes make a difference…

- **Overview**
  - **Drilling down within this overall universe we looked at three subgroups of business fraud relating to this forum including:**
    - **Criminal activity – i.e., indictments, convictions (company/officers) often misrepresentation**
    - **Business Identity Theft - i.e., unauthorized use of a company identity**
    - **Misrepresentations – i.e. company displays characteristics of deception or misrepresentation of business information "Bust-outs" and "Shelf Corps that misrepresent…"**

Year	2007	2008	2009	2010	2011-YTD	2011-Proj
# Businesses	3,398	4,266	4,667	4,864	5,435	7,247

- **Commentary**
  - **Much like state gov't business registrations, D&B provides companies with the ability to see and make certain changes to their business filing/record.**
  - **In late 2009 we confirmed an increase in both business identity theft and business misrepresentation**
  - **We implemented a number of system changes that has significantly decreased un-authorized changes to a companies information.**
  - **On average, in the US we see 50 failed attempts a month to compromise our filings/records**
  - **Relative to other proofs-of-right the numbers are much higher (exact number is unknown)**

Typical Business Identity Theft

Similar to personal identity theft, criminals steal the identity of a legitimate business, trading on the *good-name* to secure new or use existing lines of credit to obtain goods and services from unsuspecting companies to get financial gain.

Corp ID Thief
Often Not Local
Out of state,
Out of Country
Can Be
•Detected by
•IP address

Selects A "Quality" Business To Steal ID
•Established,
•Credit-worthy,
•Re-activate dormant corp.
•Buy Aged Shell
•To Provide Positive References to Other Entities (trade-ring)

Establishes A Fraud Delivery Point
•Virtual Office Space or PO-Box

Establishes Virtual Phone #
•Land-line to Prepaid cell

Initiates Changes To Proof of Right Sources
•Address,
•Phone,
•Officers

Place Numerous Orders
•Orders Approved By Large Companies

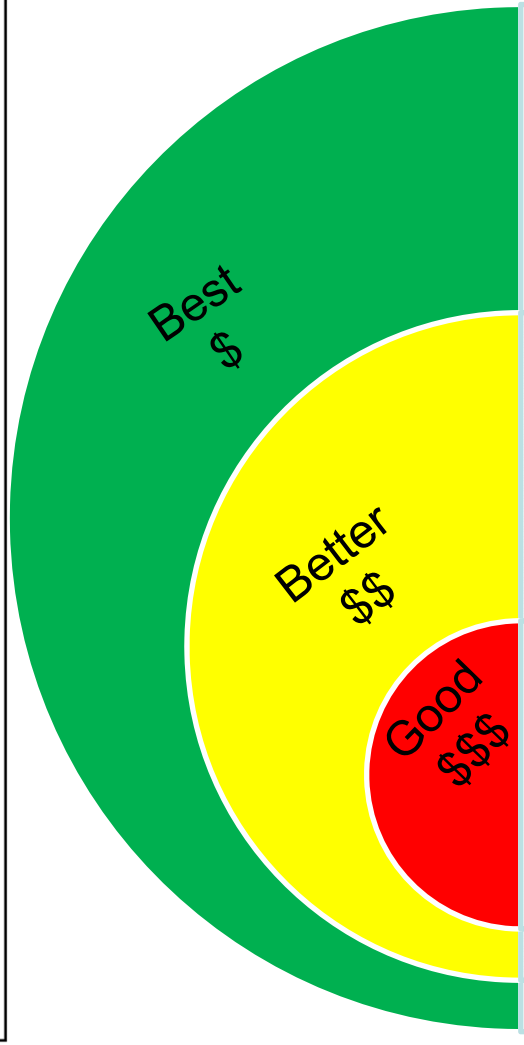
Goods Delivered
•Often to "Mules"
Invoice Net
30 Days

Thief Receives
& Moves goods
To new location
Sells Goods
And then
Repeat…

Repeat with new Stolen Entity, new delivery point…

Much like what D&B has and is continuing to improve upon and deploy, states and other participants in the business registration "system" should consider three areas…

Three Concentric Circles to mitigate registration fraud



Prevention

- Verify Data-entered – does it make sense
- Authenticate person (KBA)
- Add steps to bring-back old
- Web Fraud Detection Tools
- Credit Card Fraud
- Education

Inspection Appraisal & Oversight

- E-mail /phone notifications of changes
- Registration Portfolio Sweeps (outliers)
- Share cases w/respective investigators & related parties i.e., D&B, NASS, IACA…
- Work w/law-enforcement
- Dashboard -Benchmark and Track Trends

Recovery

- Correct and Support Victims
- Prosecution
- Communicate success to deter