

# Tills the season

eStar CTO Matt Neale discusses fighting fraud this shopping season.



**WITH THE CONTINUING** growth in online shopping a less glamorous side of this trend is the increase in online fraud. As we head into the major shopping season of the year, expectations are that this year will be no exception.

Globally online retail fraud now accounts for over one per cent of all online sales, and is a clear and real threat to Australasian retailers. In this online environment, merchants are liable for every payment they receive. With credit cards without a signature being the most common payment method accepted, there is no fall back to the banks - online, merchants are responsible for their own security.

Services to help identify individuals - such as the MasterCard Identity Check are helpful and have some impact. But online fraud is largely "friendly" fraud,

which means better verification of an individual won't make any difference.

The sophistication of fraudulent customer behaviour has been steadily increasing and can be broadly defined into three key fraud types: Transaction fraud - usually from chargebacks or disputed payments; service fraud - where the retailers service offer is pushed to the limit through, for example, returns of used goods, which is common in apparel segments; and delivery fraud, also called "friendly fraud", where the customer stays on friendly terms with the retailer by claiming non-delivery, saddling the blame with the courier company.

The 'blame game' compounds further with retailers questioning their staff and internal processes, thinking they have

made mistakes in terms of order processing and fulfilment.

Whereas transaction fraud used to be the mechanism of choice, studies have shown that these only account for approximately 30 per cent of fraudulent orders overall, with the friendly fraud approach taking the rest.

To try and mitigate such fraud, retailers have traditionally turned to 'black lists' of known customers, addresses or high order values. While these have their place, they really are only tip of a comprehensive fraud prevention practice iceberg. Why - because it's not credit cards that commit fraud, it's people.

So how can Australian retailers protect themselves, reduce their risk, and increase their returns against this backdrop?

Retailers must fight fraud on multiple fronts. Clearly the days of manual

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processes are numbered, and with most retailers powering their digital storefront and eCommerce with technology, fraud prevention through technology becomes a natural extension (and virtual necessity).

With all the rich data that retailers have to draw upon, software is where retailers must turn to for a richer shopping season. For example, using software retailers can gain the ability to look a little deeper into their customer's buying behaviour and any unusual ordering patterns – it may be they have been experiencing fraud, but are not yet aware of it.

**Top tips to combat online fraud:**

- If you don't think you are experiencing fraud, they you may need to check more critically into your business and customers.
- Online fraud is largely friendly fraud, so solely relying on credit card data, isn't enough.
- Make fraud identification and management part of your normal customer service business processes. Managing risk and good security should be considered a service necessity, rather than a burden.

“ The sophistication of fraudulent customer behaviour has been steadily increasing. ”

- Recover 'false positives' by providing a customer service telephone number to any "rejected" customer orders. This will ensure legitimate customers have the opportunity to call to complete their purchase.
- Fight fraud on multiple fronts by implementing a fraud management tools that looks beyond Identity and credit card checking into behavioural analysis and pattern matching to identify the expected behaviour of the person placing the order, because it is people that commit fraud, not credit cards. With the cost of fraud, running at around three times the value of the financial transactions themselves, it is almost financially irresponsible for retailers to continue ignoring the costs and impacts of fraud to their business. ■



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