There's Nothing Friendly About Online Fraud

Most of us think of online fraud to be all about stolen credit cards ordering thousands of dollars of goods from far away countries. The reality is that online fraud is much closer to home, can be any purchase value with any purchase method. Online fraud is carried out by people (not credit cards!) and much of it originates from legitimate but dishonest buyers. Reducing online fraud means retailers need to do more than use a reputable payment gateway and just follow normal security practices.

The average rate of online fraudulent transactions is 1% (these are US figures but we expect at least a similar level in Australasia). With Australasia's annual online purchases nearing $20B, fraud risk is a significant issue, and equates to **$200m a year** to retailers purely in financial costs of lost payments or lost deliveries. Worse, there are more risks to retailers in brand damage and perceptions from both customers and media, along with the operational costs for follow-up and recovery.

Online fraud can take a number of forms. By far the most common form is the so called **"friendly fraud"** where a buyer contacts their credit card company to dispute they didn't received the goods, never ordered them, or there was a problem with the product. These deliberate scenarios are responsible for over 60% of all claims. Accidental friendly fraud can also occur where the customer doesn't realise what a charge is for on an account. Buyer identity fraud from lost and stolen credit cards is much less common.

The result of most online fraud for a retailer is a chargeback – where the merchant has not only lost the goods but also has the value of the transaction reversed by their settling bank. The risk of chargebacks is exacerbated in the online 'card not present' environment, where both illicit and 'friendly' fraudsters benefit from the ability to transact relatively anonymously. Enough chargebacks can cause an even bigger risk – that of the retailers entire merchant account being revoked by their bank, meaning they can no longer accept online transactions.

So what can retailers do to mitigate these risks?

The first option is to do nothing. This is still surprisingly common, but putting your 'head in the sand' is rarely a wise long term strategy and can lead to increasing levels of fraud.

The second option is for all online orders to be assessed manually based on a team member making an expert decision, perhaps using a set of simple rules. Often this means focus on reviewing only high value orders or any order shipping to a list of certain countries. This certainly helps, but often online fraudsters are smarter than the simple rules, and manually reviewing every order takes a lot of time.

From there, more sophisticated options involve forms of real risk analysis. The simplest methods range from simple black lists (don't ship to) and white lists (always OK) but often these are simply based around credit cards already proven as fraudulent or not. The most effective methods of reducing risk involve performing software based assessment and profiling of risk factors, often based on a retailers own data or that of the wider market.

Factors that may be assessed might include;

- geolocation (matching credit card issuer to billing and delivery)
- order and item size
- order velocity (frequency of reorder)
- address checking
- reputation checking
- pattern matching (e.g. same address, different name)

Use of risk profiling software takes the guesswork out of the process and **helps retailers make better decisions** around order processing, reducing fraud rates, maintaining brand reputations and lowering operational costs. Leading ecommerce solutions company eStar have developed sophisticated fraud risk software, based on 12 years' worth of data from their wide client base including some of the largest retailers in Australasia. Utilising this fraud prevention software, retailers have a much lower level of fraud than the overall market, with fraud rates 80-95% lower than the market average, **saving retailers millions of dollars every year**. This software is called RMProfiler - Risk Management Profiler.

eStar CEO Andrew Buxton says, "Online fraud isn't friendly and isn't going away. The good news is retailers can take steps to mitigate the risks and save millions of dollars and in many instances, their reputations as well."