Retail Asset Protection Conference 2016

Get The Whole Picture
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RILA
RETAIL INDUSTRY LEADERS ASSOCIATION
Educate. Collaborate. Advocate.
E-Commerce Fraud: The New Frontier in Loss Prevention
Jonathan Baker & Adam Alford
Jonathan Baker
Sr. Manager, Multichannel Investigations
GameStop
Adam Alford
Sr. Director of Asset Protection
GameStop
GameStop: Who We Are

• Family of specialty retail brands with over 6,900 stores in 14 countries
  • GameStop/EB Games
  • Micromania
  • Kongregate.com
  • Game Informer Magazine
  • Spring Mobile: Largest authorized dealer of AT&T wireless services
  • Cricket Wireless: Authorized dealer of pre-paid AT&T service
  • SimplyMac: Largest certified retailer of Apple products
  • Geeknet/Thinkgeek.com
E-Commerce Impact

• 2014 E-Commerce Sales: $305 billion
• Annual sales growth of approx. 15% annually over the last 5 years

• 2014 E-Commerce Fraud Cost: $32 billion
  • 38% increase over the previous year

• Cost of Fraud & Related Expenses: 1.39% of total revenue

Card Present vs. Card Not Present

<table>
<thead>
<tr>
<th></th>
<th>Card Present</th>
<th>Card Not Present</th>
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</thead>
<tbody>
<tr>
<td>EMV chip is read or card is swiped</td>
<td>Lower risk of fraud: Customer &amp; card are present</td>
<td>E-commerce transactions</td>
</tr>
<tr>
<td></td>
<td>Lower interchange fees</td>
<td>Telephone transactions</td>
</tr>
<tr>
<td></td>
<td>Signature capture</td>
<td>Increased interchange fees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No signature capture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increased dispute difficulty</td>
</tr>
</tbody>
</table>

* The line between CP & CNP transactions is becoming less clear as mobile wallets & near field communication (NFC) payment methods become more common.

Punch, Linda, “E-Commerce: Just What Does Card-Present Mean These Days?”
Costs of e-Commerce Fraud

• Chargeback Losses: Average loss of 0.9%
• Chargeback Fees
• Labor
• Internal Fraud Systems
• 3rd Party Fraud Tools & Platforms
• Interchange Fees
• Impact on Customer Experience

E-Commerce Business Partners

- Order Verification
- Customer Service
- IT
- Accounting
- Multi-Channel/Omni-Channel
Order Processing
Fraud Mitigation Strategies

• Rules Based Platforms
• Machine Learning Platforms
• Manual Review vs. Auto Accept/Reject
  • 81% of merchants use manual review
  • 5 minutes of review per order
  • 2% of orders automatically rejected

Fraud Mitigation Tools

- Device Identification
- IP Address
- Address/Phone Verification
- Shared Data/Link Searching
- Customer History
- Loyalty Program Information
- 3D Secure
Impact on the Customer

• Orders Cancelled in Error
  • 10% of auto rejected orders

• Manual Review
  • 27% of orders are reviewed
  • 85% of those orders accepted
  • 1 out of 4 orders declined were not fraudulent
  • Delayed fulfillment

• Physical vs. Digital Delivery


Omni-Channel

- Fraud increased 24% from 2014-15
- 55% of total fraud from online channels

- Pick Up In Store: 22% of losses
- Ship to/from Stores
- Web-in-Store
- Mobile App/Websites
- Mobile Wallets

Account Takeover

- Customer data obtained through scams, malicious software, or social engineering
- Stolen credentials pushed to multiple accounts looking for a username/password match
- Initially targeted financial institutions: $4.9 billion in losses in 2012

Retail Impact:
- Fraudster appears to be a legitimate customer
- Replacement cost of loyalty program incentives
- Negative customer experience

Friendly Fraud

• Chargebacks received by merchants where:
  • The cardholder made the purchase.
  • A family member of the cardholder used the card to make a purchase.
  • The cardholder was not allowed to refund product that was purchased.

• Attributed to 18% of fraud for all merchants & 26% of fraud for e-commerce merchants in 2014

EMV Implementation

• October 2015 Liability Shift
• Chip & Pin vs. Chip & Signature
• Card Present vs. Card Not Present Fraud

• US vs. European Implementation
  • Chip & Signature Option
  • E-Commerce Fraud Impact


Chargeback Representation

- Half of fraud claims result in a chargeback
- Evidence provided to issuer to dispute
- 60% of chargebacks disputed
  - 40% of disputes successful
- Approx. 1 out of 4 chargebacks received are reversed

Social Q&A
Complete the session survey!

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Answer the survey questions and submit!

Please rate the value of the session’s content.

Please select an answer:
- Excellent
- Above Average
- Average
- Below Average
- Poor