



The Current State of Friendly Fraud

Can it be Defeated?



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Friendly Fraud Definition

Friendly Fraud refers to **fraud** that is committed when an individual had knowledge of and/or was complicit with and/or somehow benefited from the transaction on their own account, although the individual reported the transaction as unauthorized.

Friendly Fraud Types

Hostile: The cardholder is gaming the system with the intent to commit fraud.

Household/Family:

- **Minor:** A minor in the family made the purchase, most likely without permission.
- **Adult:**
 - Cardholder was unaware of purchase made by spouse/household member.
 - Denial of the purchase due to embarrassment, divorce, or remorse.

First Party Fraud Definition

First Party Fraud refers to **fraud** that is committed by an individual or group of individuals on their own account by opening an account with no intention of repayment.

Statistics – A Growing Problem

FBI Identified Friendly Fraud
As #3 Ecommerce Problem

In ranked order, the top nine fraud attacks identified were:

- 9) Triangulation Schemes
- 8) Phishing/Pharming/Whaling
- 3) Friendly Fraud**
- 5) Affiliate Fraud
- 4) Identity Theft
- 3) Friendly Fraud
- 2) Account Takeover
- 1) Clean Fraud



MRC Global Fraud Benchmarking Study 2014:
Percent of your total ecommerce revenue loss
due to “friendly fraud”?

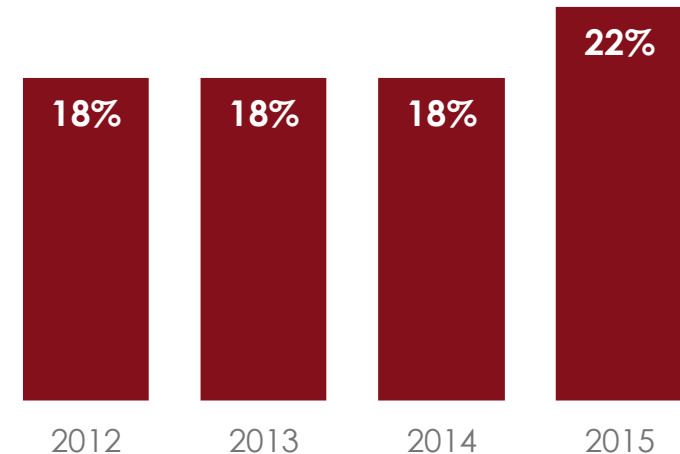
28%

Visa Estimates
\$11.8B is Lost Annually
to Friendly Fraud



Percentage of Friendly Fraud

Source: Lexis Nexis Total Cost of Fraud
2012-2015



First Party Fraud: A Pilot Case Study

We measured the impact of First Party Fraud with a specific digital goods merchant:

- **920 Transactions Studied**
- **661 Transactions Confirmed First Party Fraud**
 - **Definition** – The specific card with that device ID had placed good orders previously at that merchant.
- **629 transactions were a single instance of a card:**
 - **22** of those transactions impacted other merchants – the other **607** cards only impacted this merchant.
 - Key Takeaway: **607 cards** were re-issued that did not need to be reissued.

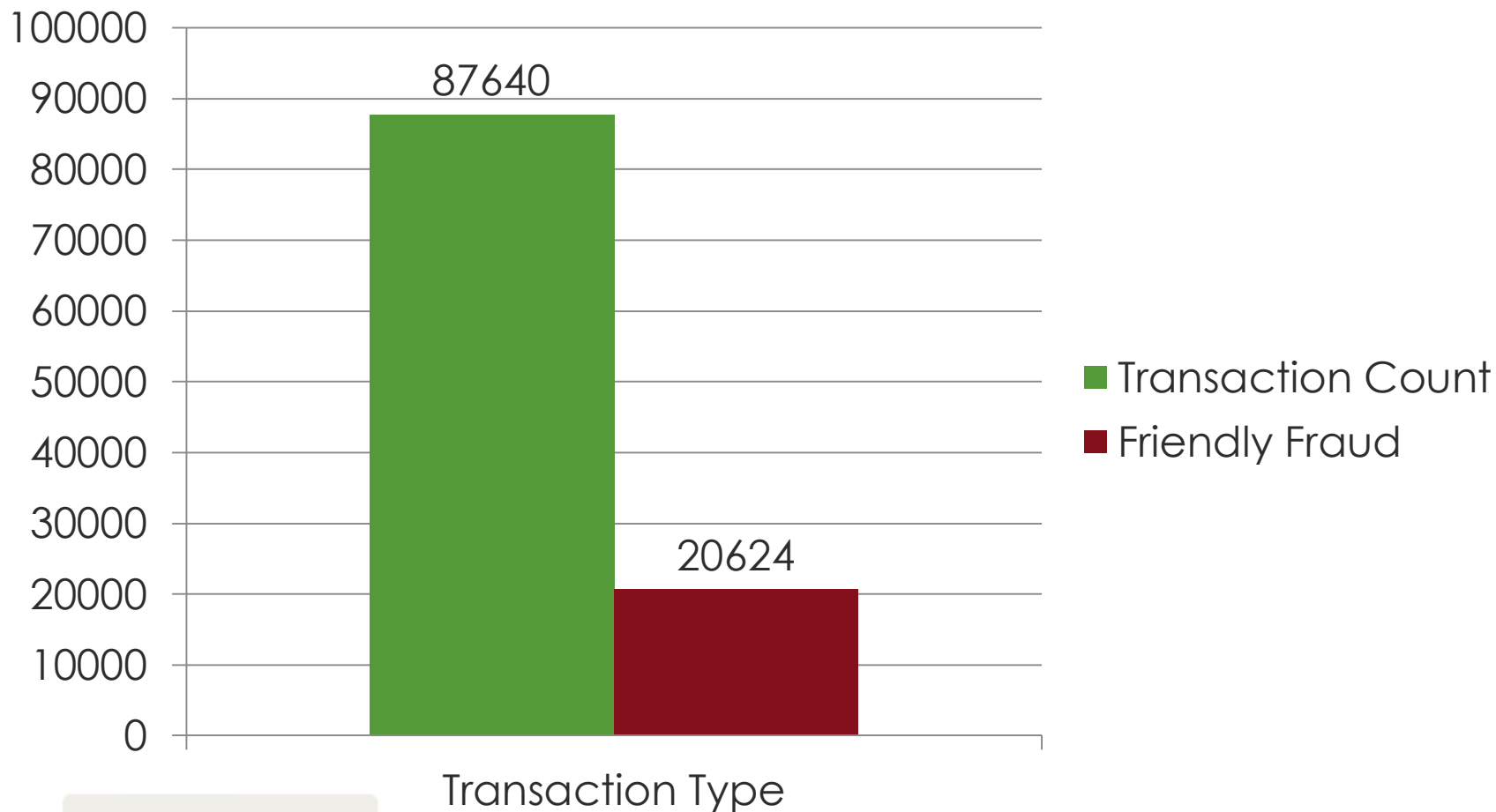
Next Step – Collect more data during pilot to validate whether all merchants experience the same problem.

53 Merchants Participated

Data Around Study

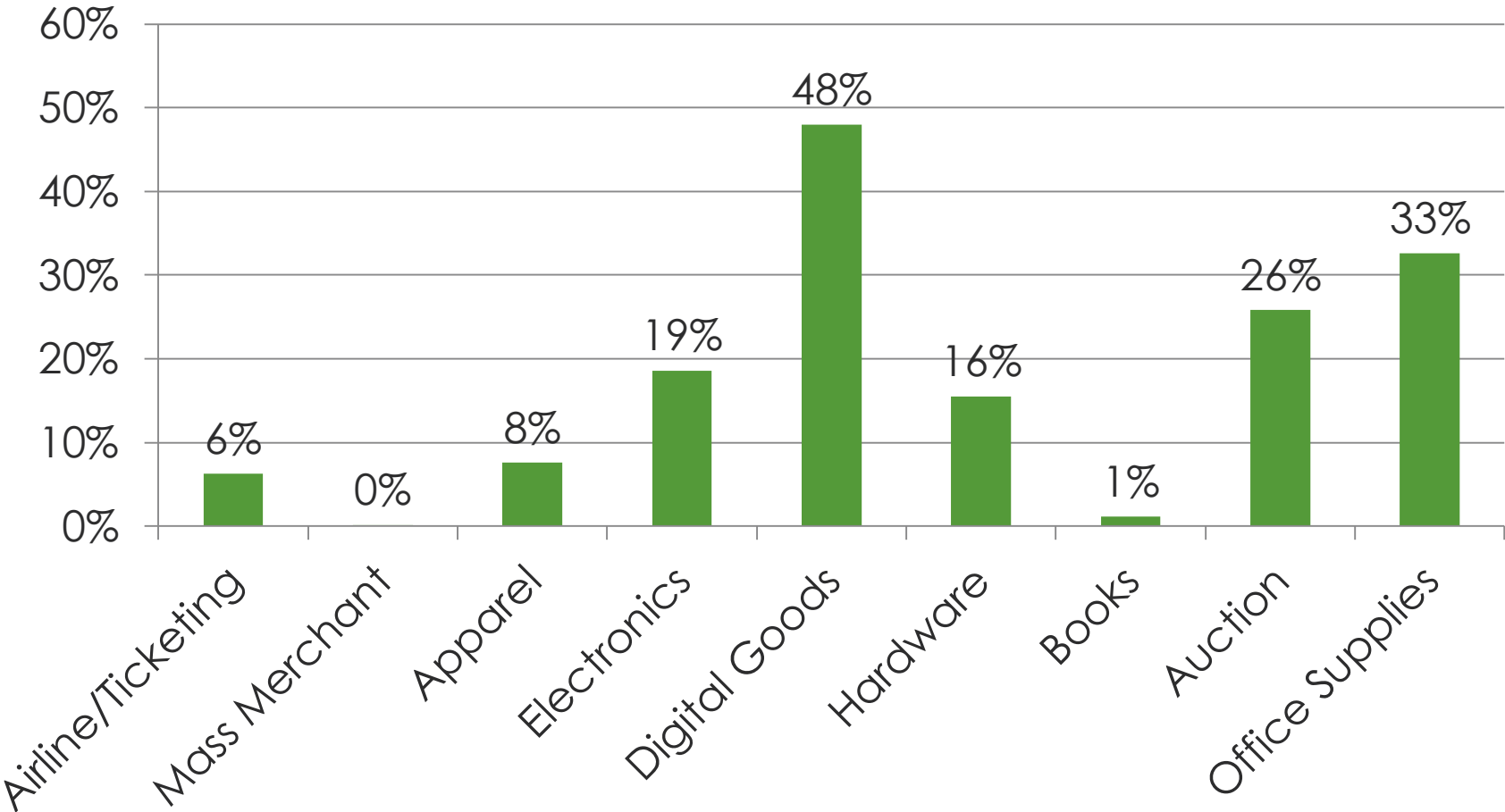
- 53 Merchants Participated
- January 1 – September 30, 2014
- 87,640 Transactions Analyzed by Merchants

Overall Findings – 24% of Transactions Are Friendly Fraud



Percentages vary WILDLY by Industry!!!

Friendly Fraud Rates – Industry Categories



What Causes Friendly Fraud?

Why Don't Issuers Push Harder?

Issuer Regulations

U.S. Consumer Protection Acts

Regulation E, Electronic Funds Transfer Act (Debit)

Regulation Z, Truth in Lending Act (Credit)

UK & European Regulations

Regulatory environment privileges the cardholder

- ***PSD (Payment Services Directive)***
- ***FOS (Financial Ombudsman Service)***

Compelling Evidence a Hard Balance

Friendly Fraud means that both the issuer and merchant will continue to have a relationship with the cardholder – **it must not be compromised in this process.**

- Issuer Regulatory Requirements



- Merchant Sales Data
- Cardholder PII
- OpEx

Profile of a Friendly Fraud Abuser



Tools some merchants use that help identify friendly fraud



Leverage Merchant Historical Data!

- Card Number + Device/IP Address and previous orders
- Make a profile of a household, link them together with all their devices
- Be smart about new releases of phones, and tablets

Best Practice: Parental Controls

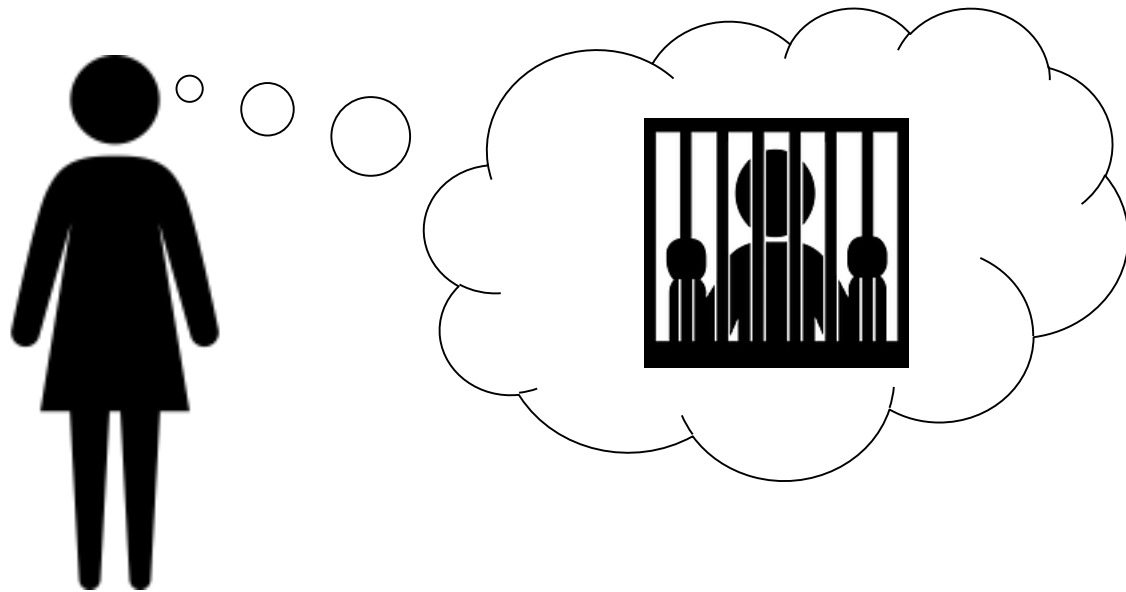
- More and more companies are implementing parental controls, making it easier for parents to approve an order instead of sharing card details on their kids profiles.

When to talk to the cardholder and what to say

When does it make sense to call the cardholder?

- Large dollar amounts being contested
- You have evidence it is from their household
- Measure the lifetime value of this account. If it's a long standing customer you will treat it differently from a brand new account – look at the big picture.

If you do agree to a refund ask the question, “By accepting this refund, we assume you confirm this is fraud and will work with law enforcement in prosecution for this case.”



Make a great refund policy!

Refund Policies are Super Important

- Include language that is clear and easy to understand around your refund policy.
- Consumers might be less likely to lie if your refund policy is clear.
- Don't be too easy – new trend – REFUND ABUSE!

When a cardholder cancels a subscription or disputes a card, what do you do to them for the future?

How do you manage that balance?

Account on File and Subscription Disputes

- Need to consider if a cardholder disputes something...do you lock them out from purchasing further for some period of time?
- Do you lock their account?
- Do you block that card?
- Will the cardholder just make a new account?
- What can you do???

**What should merchants submit
in compelling evidence?**

**Privacy concerns around
compelling evidence?**

What about minors?

How do you prove the household?

Compelling Evidence Rules from Visa

Return Policy, Refund Policy, and Cancellation Policy

- The policies must be clear and must be clearly disclosed to the cardholder.
 - For Internet Orders, there must be a click to accept button and the terms must be more than just a link. (it can be near the submit button too and then not require a click to accept)
 - For telephone orders they can be sent via email, mail, or text message

Receipt must be compliant

Substitute Transaction Receipts

Merchant Name and Location

Transaction Date

Description of Goods or Services

Merchant Online Address

Payment Method Used and Suppressed Account Number or Token

Transaction Type: Purchase or Credit

Transaction Amount

Refund/Return Policy (optional)

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	Shipping & Handling:	\$3.99
	Subtotal:	\$20.64
	Total for this Shipment:	\$20.64

PAYMENT INFORMATION Printable version

Payment Method: Visa: xxxxxxxxxxxx0123 Authorization Code: XXXXXX Transaction Type: Purchase	Authorization Code	Item(s) Subtotal: \$16.95 Shipping & Handling: \$3.99 Total Before Tax: \$20.64 Estimated Tax: \$0.00
Billing Address: John Bennett 2423 Sweet Dr. San Francisco, CA 94111 USA		Grand Total: \$20.64

No refunds after 30 days. See our Return Policy.
Questions? Call Customer Service at 1-800-111-1111

Proof of Consumer

- Name and Address must match what the issuer has on file OR evidence that the transaction was completed by a member of the cardholder's household or family.
- Customer name linked to the customer profile on record at the merchant.
- Evidence that the customer password was re-entered on the merchant's website or application at the time of purchase.
- Evidence that the merchant validated the card when the cardholder first linked the card to the customer profile on record at the merchant.

Proof of Receipt and Use of Products

- ...date and time such goods or services were downloaded, and two or more of the following:
 - Purchaser's IP address and the device's geographical location at the date and time of the transaction.
 - Device ID number and name (if available).
 - Purchaser's name and email address linked to the customer profile on record with the merchant.
- Proof that the merchant's website or application was accessed by the cardholder for goods or services on or after the transaction date.

Cancellation of Recurring Transactions

For a recurring transaction, all of the following:

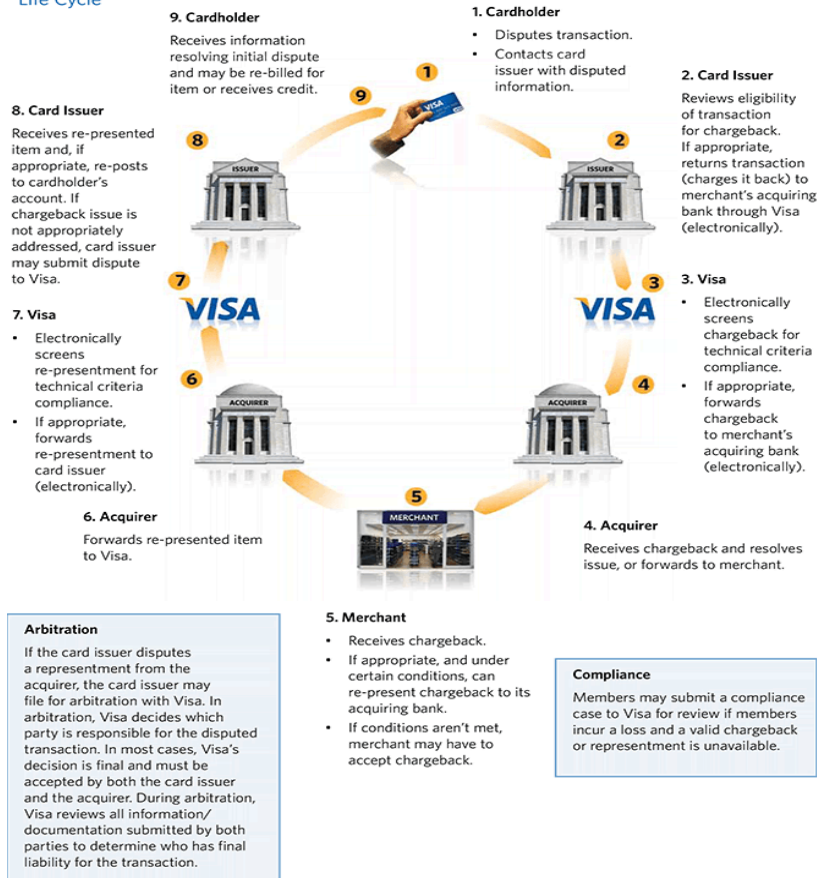
- Evidence of a legally binding contract held between the merchant and the cardholder.
- Proof the cardholder is using the merchandise or services.
- Evidence of a previous, undisputed transaction.

Cancel the recurring transaction:

- Record the date and time the request came from the consumer
- Show proof that it was cancelled on that date and going forward

The Representment Process Today

The Chargeback Life Cycle



- Lots of stakeholders in the process
- Inconsistent representment responses
- Difficult to automate
- Costly process takes too long

Aol.

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If you have any questions about the presentation, go to our LinkedIn Group (the [Payments Education Forum](#)) and request an invitation (this is a closed group specifically for the payments industry).