

# Online Fraud

## An Acquirer's View

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# Evolution of online card fraud

- Chip & Pin rollout begins 2003 (Northampton Trial)
- Fraud begins to migrate to CNP channel as success of Chip and PIN bites
- 2006 - total CNP fraud rises to nearly half of total plastic fraud losses\*
- 2006 - Online fraud accounts for almost three quarters (73%) of the total CNP fraud losses\*
- 2007 - Another rise, (up 37% year on year) 3 times level of txn. growth (12%)\*
- RBS card fraud rates for CNP fraud are currently below industry averages as fraud controls are continually reviewed and tightened to ensure maximum fraud protection for our merchants through the range of fraud prevention services offered.

\*APACS FRAUD FACTS 2008



# Online fraud growing trends

- **Card Testing**
  - Charity websites
- **Fraudsters posing as merchants to collect card details**
  - e.g. Price comparison websites
- **Collusive merchants**
  - order non-fulfilment
  - Money Laundering
- **Fraudulent shoppers - Cardholder denial**
- **Start up merchants**
  - Exploiting inexperienced new to market merchants
  - Online gaming and content
- **Card number generation**
  - Still prevalent but real card details easily available

# Sectors prone to fraud

➤ New internet specific businesses

- Online games
- Gaming
- Dating
- Music downloads/ VOIP

➤ Airlines

➤ Computer/ Audio/ Electric goods

➤ High value items e.g. Jewellery

➤ Student purchases e.g. Train/ Bus tickets-

Non physical goods

Physical goods

# Future Fraud Challenges

- Merchant requiring a global fraud prevention offering
- Rise in importance of prepaid cards
- Account takeover/ Identity theft
- Increasing sophistication of fraudster practices
- CIPA creating increased usage of non-card payments
  - VocaLink
- Merchants requirements for a global payments AND risk management services

# What merchants can do to protect themselves

- Review existing business models
  - How could fraudsters take advantage?
  - What is their incentive?
    - On sell
    - The challenge/ geeky honour
- Don't wait to be hit by fraud
  - Review industry norms for fraud trends and risk tools employed.
- Review potential cost of loss due to fraud
  - Goods
  - Chargebacks
  - Fraud administration
- Choose a mix of risk tools, don't rely on one tool and build 'hurdles' for the fraudsters to get over

# Fraud tools in use by merchants

- Address Verification Service / Card Verification Code (AVS / CV2)
- Card Authentication – MasterCard SecureCode / VbV
- Fraud screening tools - proprietary and specialist provided
  - e.g. RiskGuardian and other screening tools
- Data sharing tools
- Age and ID verification tools
  - e.g. 192.com Business Services
- Capture Delay

# Fraud tools in use by merchants

- Recent online surveys have reported that a merchant a majority of merchants will use a combination of risk management services as the basis of their fraud strategy.
- RBS through Risk Guardian provide access to all of the above services though a single integration where appropriate utilising 'best of breed' suppliers, an prime example being our partnership with 192.com for Age and ID verification services

# 3D Secure Enrolment

## Industry statistics - 2007

- 79% of Debit Cards, 85% of Credit Cards enabled for 3D Secure\*
- 25 million cards registered – 1 million new registrations per month\*
- RBS process 60% of all Visa EU VbV e-Commerce transactions\*
- % of fully authenticated transactions as a % of all VbV transactions has risen from 38% to 48% Aug 07 to Aug 08\* - the message is working.

## The benefits

- No firm statistics available as to actual fraud prevented by implementation of 3D but RBS credit risk functions place positive weighting on merchants employing 3D Secure when assessing merchant acquiring applications.

➤ \*Source: APACS

# Future fraud prevention enhancements



- VISA CV2 mandate
- Dynamic Passcode Authentication – Already running in the e-banking channel. APACS running e-Commerce pilot with 2 issuers (commencing 2009)
- Continued roll out of data sharing models



# How RBS Acquiring work with card schemes



- Work with Card Schemes to appeal a Card Scheme programme breach on the basis of an effective merchant action plan agreed with ourselves to address fraud
- Work with schemes and fraud prevention entities to develop cutting edge risk mitigation services to meet changing fraud trends and challenges



# How RBS Acquiring assists merchants in preventing CNP fraud



## ➤ Partnership approach – Fraud Education

- Regular fraud reviews with merchants in high risk sectors
- Upfront fraud review for new merchants
- Internal triggers (Internal fraud tools)

## ➤ Design fraud strategies in partnership with the merchant (new and existing)

- Provide consultancy to review effectiveness of merchant risk tools employed
- Create effective bundle of risk mitigation tools to optimise fraud prevention

## ➤ Highlight implications to the merchant of scheme changes to merchant fraud strategies



# Contact Details



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