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Fraud 201

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“Fraud”in CNP Payments?

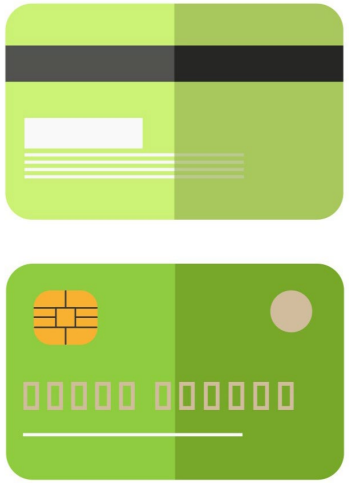
Credit Card CNP Merchants ”Fraud”

Chargebacks

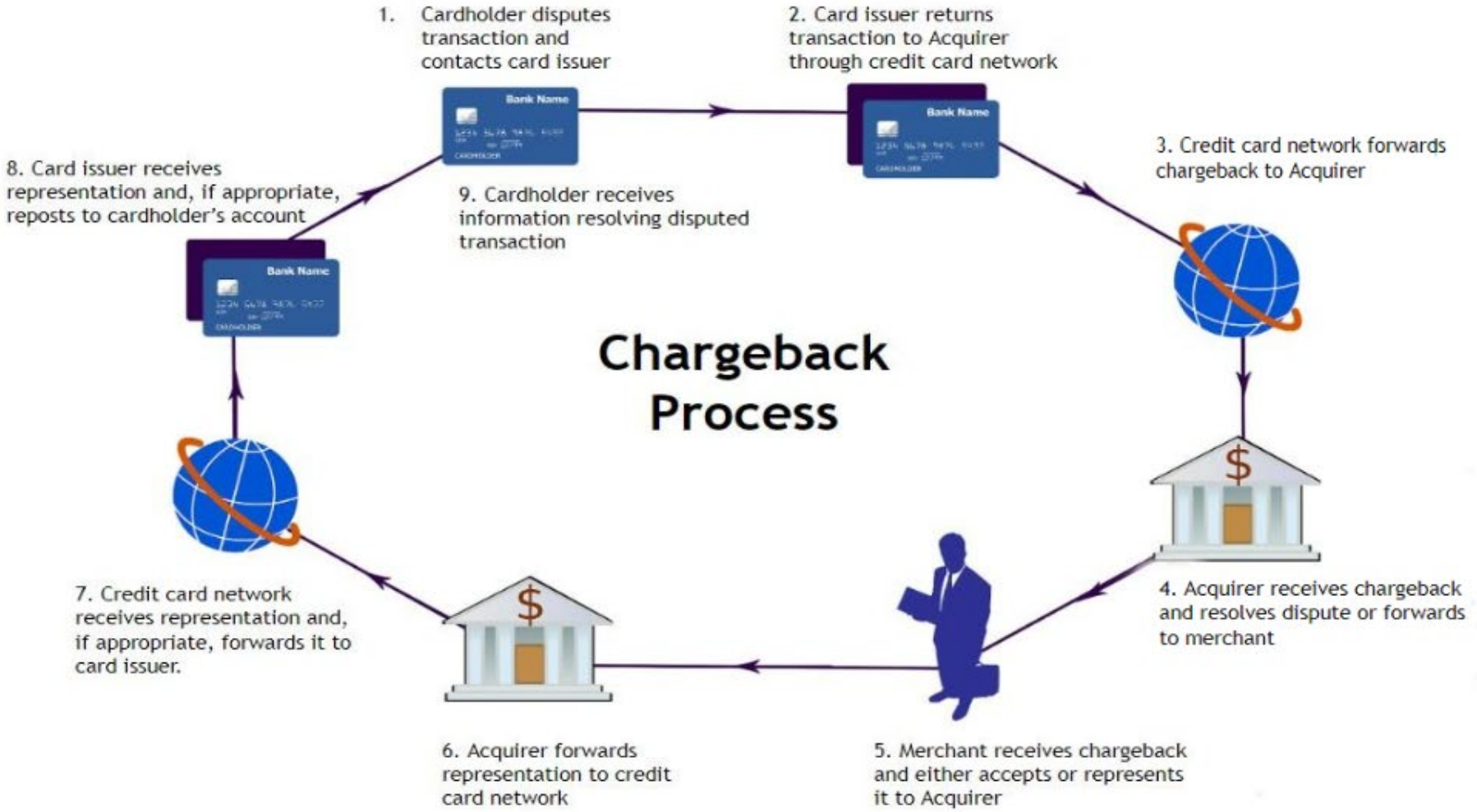
- Card holder or issuer initiated
- 0.9% limit

Fraud Alerts

- TC40
- 0.9% or $75,000 USD Limit



“Fraud”in CNP Payments?



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Criminal vs Friendly "Fraud"

Criminal fraud is fraud with intent to steal money from the merchant and generally the card holder is unaware

Many Types:

- Card Running
- Stolen / Hacked Card Use
- Stored Card (ATO) Abuse

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Criminal vs Friendly "Fraud"

Friendly Fraud or family fraud is where the card holder or a friend or family member is involved, often from known devices/accounts.

Examples:

- Children
- Spouse
- Forgotten charge

Credit Card CNP Merchants "Fraud"

Account Take Over (ATO)

⟶ This is a huge vector for fraud right now and will be more so in the future

How it works:

- A fraudster will "hack" a known victim's account and make purchases
- Phishing scams
- Family member / Account Sharing

Why its difficult

- Account age no longer useful
- Could be same device
- Often good card history

Key Fraud Data Points for Merchants

Visa Chargeback Monitoring Program's Thresholds

Classification type	Dispute count	Dispute ratio
Early warning	75	0.65%
Standard	100	0.9%
High risk merchant	100	0.9%
Excessive	1,000	1.8%

The fines issued depend on your classification type, and they start as soon as you are enrolled in this monitoring program. Usually, it's charged $50 per dispute and then a $25,000 review fee during certain months. After enrolled for 12 months, your merchant account can be closed.

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Key Fraud Data Points for Merchants

Mastercard Chargeback Monitoring Program's Thresholds

- Volume requirements: At least 1,000 Mastercard transactions in the previous month
- Amount threshold: $50,000 (USD/EUR) or more in fraud claims
- Fraud ratio threshold: 0.50% or higher fraud-to-sales ratio

The first month Mastercard doesn't issue any fines to merchants. However, your processor might. After this period, amounts can range from $500 (or €500) to $100,000 (or €100,000) or more.

Both Visa and Mastercard reserve the right to terminate the merchants ability to accept cards on their network if they are not below thresholds after month 12.

Chargeback / Fraud Math

Each brand has their own math for chargebacks and fraud ratios

VISA

Chargebacks are based on #s

$$\text{Chargeback Rate} = \frac{\text{\# of Chargebacks REPORTED this month}}{\text{\# of Sales Transactions this month}}$$

VISA

Fraud is based on Volume ($ USD)

$$\text{Fraud Rate} = \frac{\text{Usd \$ Amount of Fraud REPORTED this month}}{\text{Usd \$ Amount of Sales Transactions REPORTED this month}}$$

Chargeback / Fraud Math

Each brand has their own math for chargebacks and fraud ratios

MASTERCARD

Chargebacks are based on #s

$$\text{Chargeback Rate} = \frac{\text{\# of Chargebacks REPORTED this month}}{\text{\# of Sales Transactions LAST month}}$$

MASTERCARD

Fraud is based on Volume ($ USD)

$$\text{Fraud Rate} = \frac{\text{Usd \$ Amount of Fraud REPORTED this month}}{\text{Usd \$ Amount of Sales Transactions REPORTED LAST month}}$$

Fighting Fraud

Best practices

AVS	CVV / CVV2 / Card Code	Customer Service
▪ Checks the billing address against the address you collect during the checkout process ▪ Only USA / CA / UK	▪ This is the 3 digit code on the back of the card or 4 digit on front of Amex ▪ Require CVV, at least, the first time you see the card	▪ Make sure billing tickets / support are handled in less than 24 hours ▪ Slow responses are a leading cause of chargebacks

Fighting Fraud

Best practices

Brute Force / Card Running Prevention

- Make sure no single IP / Device / Card / Email / Account can place more orders than humanly possible in a short period of time.
- Set limits for how many orders per day an account can place

Process TC40 / Fraud Alerts

- Most acquirers will provide you the TC40 reports if you ask nicely
- Process these based on your situation

Account Security

- Don’t trust a transaction just because the account has been around a long time
- Enforce good account security

Thank You

Q&A - Any questions?

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