

Is Credit Card Fraud Impacting your Bottom Line?

April 14, 2010

- Understanding credit card fraud
- Identifying credit card fraud in your business
- How can credit card fraud impact your bottom line?
- Partnering with banks/processers to resolve chargebacks
- Utilize POS for preventive measures

- Simply put, credit card fraud is the unauthorized account activity by a person for which the account is not intended.
- Credit card fraud occurs in card present (face to face transactions) and card-not-present (internet transactions) environments
- Common forms of credit card fraud
 - Stolen Cards
 - Identity Theft (Account Takeover and Application Fraud)
 - Skimming (gathering credit card data through legitimate transactions for future illegal use)
 - Bin Attack- (credit cards created in sequential order of a legitimate account number)
 - Friendly Fraud

- **Card Fraud costs U.S. merchants, issuers, & acquirers \$8.6 Billion each year**
- **1 in 5 merchants are seeing an INCREASE in fraudulent transactions**
- **1 in 2 merchants see education as their greatest need in reducing fraud**
- **In the headlines: Security breaches broken down by year:**

Year	Breaches	Records Exposed
2005	157	66.8 mil
2006	321	19.1 mil
2007	446	127.7 mil
2008	656	35.7 mil
2009	444	222.1 mil

Identifying Card Fraud

Most credit card fraud is identified after the fact through:

1. Chargeback requests from issuers
2. Store incident reports
3. Fraud Alerts for pre-paid items
4. Exception reporting
5. Notification by victim and/or law enforcement

All of this information should be collectively analyzed to identify market trends.

Exception Reporting can be used to identify high risk transactions based on dollar thresholds, account usage, processor reject codes, etc.

Examples of Exception Reports

-High Dollar Credit Card purchases (>\$X)

-Multiple Purchases Same Account

* Most fraud is short lived. Sometimes only looking at a day or a week is sufficient in setting manageable thresholds.

To identify market trends, it may be beneficial to pull store attributes, such as City or Market and State. Reviewing these items at a high level can help identify focus areas.

Your Bottom Line . . .

Credit card fraud impacts your bottom line in 2 ways:

1. Chargebacks and associated fees
2. Missed sales opportunities due to out of stocks

What are chargebacks?

A chargeback occurs after a cardholder contacts their bank to dispute a charge.

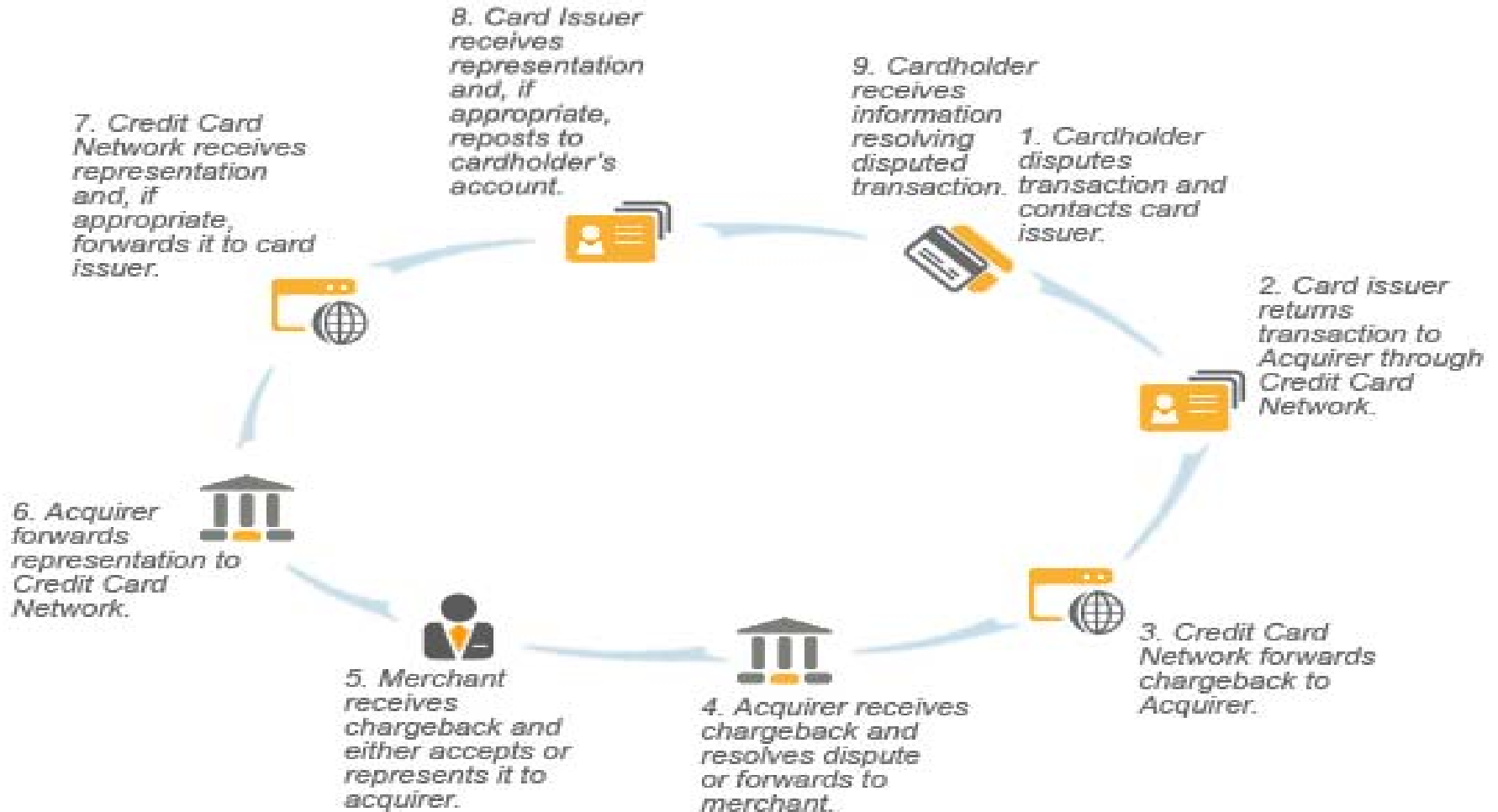
Visa and MasterCard (as well as other Card Issuers) hold merchant banks 100% responsible for chargebacks. It is your company's bank that passes the costs to your business.

A retrieval is the start of the chargeback process. Some banks charge retrieval request fees regardless of the outcome.

Every merchant must maintain a chargeback rate below 1% of total volume processed (CTR) or risk large fines.

Chargeback process

Chargeback process at a glance:



Once a merchant exceeds a card issuer's chargeback ratio the merchant is placed on a chargeback monitoring program.

Let's look at an example for MasterCard:

MasterCard's Chargeback Monitoring program is two tiered.

Tier 1- Chargeback Monitored Merchant

- CTR in excess of 50 basis points and at least 50 chargebacks in a calendar month

Tier 2- Excessive Chargeback Merchant

- Minimum CTR of 100 basis points for 2 consecutive months and at least 50 chargebacks for each month

Chargeback Monitoring Programs

Month	January	February	March	April	May	June	July
Sales Transaction	95,665	95,460	95,561	95,867	95,255	95,889	95,758
Chargebacks	720	1003	1301	1256	1175	923	824
CTR in basis points	—	105	136	131	123	97	86

CTR is calculated by taking the preceding month's total sale transactions (for MasterCard) and dividing by the current month's # of chargebacks

February CTR is $1003/95,665=.01048$ or 105bp

Reimbursement fee is \$25 for every transaction exceeding 1% of CTR

April's fee is $(1256-(95,561*1\%)) \times \$25=\$7500$

Assessment fee is $(\text{Reimbursement Fee} \times \text{CTR}) / 100$

April's fee is $(\$7500 \times 131)/100= \9825

Over this 4 month period the merchant was assessed \$52,139 in fines

Resolving Chargebacks

Working with merchant banks will always be the first step for resolving chargebacks.

There will be different steps for card-present and card-not-present transactions. Your bank should provide clear instructions for investigating the chargeback.

It is important to note that chargebacks are a sign of fraud occurring at your business. Even if you are successfully disputing chargebacks you will incur penalty fees.

Fraud left unchecked may get worse.

Resolving Chargebacks

Most instances of chargebacks require you to provide a copy of the sales receipt along with any signature data that was captured during the sale.

The receipt you provide will go to your bank and then to the card issuers bank and finally to the card holder. Many chargebacks are resolved at this point.

If the reason code for the chargeback is fraud you may still be protected from the chargeback if you can prove the transaction complied with applicable card acceptance procedures.

Card Acceptance Guidelines

Proper Card Acceptance Guidelines:

1. Do not accept declined credit cards
2. Compare signatures on receipts to signatures on the card
3. Compare embossed first 4 digits on the card to the printed four digits below the embossed digits
4. Do not accept unsigned credit cards
5. Manually imprint all keyed credit cards
6. Do not accept expired credit cards

Most companies agree that education is the #1 opportunity for reducing fraud.

Credit card acceptance should be part of each employee's basic training. Refresher training and communication should occur regularly to ensure that the material is retained.

* Visa offers low cost training solutions (print-outs and training videos)

As a precaution, your company should also implement POS controls to deter fraudulent activity

Taking Preventive Measures

POS Controls to Prevent Fraud:

1. Verifying last 4 digits
2. Signature verification
3. Not allowing keyed credit cards



Visa Fraud Control Basics- Card acceptance guidelines & training materials

http://usa.visa.com/merchants/risk_management/fraud_control_basics.html

Visa Chargeback Guidelines

http://usa.visa.com/download/merchants/rules_for_visa_merchants.pdf

Mastercard Merchant Rules- Card acceptance guidelines and Chargeback monitoring programs

<http://www.mastercard.com/ca/merchant/en/getstarted/rules.html>

Questions

