

Beating the hi-tech fraudsters at their own game.

Online credit card fraud is driving many small businesses to bankruptcy. **Justin Hunt** asks how they and credit card companies are combating the menace and preventing further damage to SMEs.

Credit card fraud on the web is the curse of e-commerce and it can hit small and medium-sized businesses especially hard. John Sollars, sales manager of Stinky Ink, which sells printers and ink cartridges, knows only too well what impact fraudulent orders can have on an e-business. Between the end of July and the middle of August this year, he received £25,000 of orders that were created by credit card scams, and the family-run business almost went bankrupt. The volume of orders he was receiving meant he had to borrow money to fulfill them. Servicing the fraudulent orders was a hugely stressful experience. "Because of the scale of the orders, I ran out of credit. I couldn't afford to service all the orders I was getting." Says Sollars. The experience of Sollars is typical of other victims of credit card fraud who believe that attacks on merchant sites are coordinated once a weakness is exposed. However, Sollars was able to tackle the problem when he joined a new free web-based service for SMEs, called Early Warning which alerts e-businesses to the details of any previous credit card fraudsters so they don't make the mistake of trading with them again. As soon as Sollars logged on to the site, he put in the details of the fraudulent orders to share them with other businesses. He found that a lot of them had already been reported.

Early Warning was established by Andrew Goodwill, the managing director of UKComputerParts.com, which came up with the idea of SMEs sharing data on credit card scams after being the victim of fraudulent orders himself. The site has already exposed an individual in Nigeria who was buying goods using a stolen credit card and arranging for them to be sent to the address of a freight forwarding company, from where they would be forwarded to

Africa. Not only were small businesses losing money, they were also losing their goods. The Early Warning site has attracted more than 350 members and is growing daily. So far, details on about 2,500 false credit card orders have been listed. Goodwill says "The problem is massive. We got an email from one company saying that they wanted to join our scheme. We accepted them and within 24 hours they had emailed us back saying they had gone bust because of credit card fraud. He explains that many SMEs are processing credit card transactions, having them authorised and then receiving charge-back letters around four weeks later saying that the money has to be refunded, because the genuine cardholder never sanctioned the payment. "In a high street store, the retailer is guaranteed to be paid because the card has been swiped and signed. On the internet there is no guarantee you will be paid." Goodwill says the most common items that are being bought with stolen credit cards are ink cartridges and laptops. "Once fraudsters attack your site they are relentless. They are worse than a virus."



Visa says that online fraud costs UK retailers £55m a year. The credit card giant has launched a new online payment authentication system, Verified by VISA, which is supported by most of the major banks. It says the new initiative will protect SMEs from fraudulent offers. If they do everything by the book Visa says SMEs are guaranteed payment. The scheme relies on 3-D secure technology, which can be licensed from vendors. "This is a virtual handshake on the net between the cardholder and the merchant. It enables both parties to authenticate themselves. It will make a big dent into fraud and it will reduce the charge-back rates," says Robert Littas, senior vice president of risk management for Visa in Europe. But is he aware of the problems that SMEs registering on the Early Warning site have been experiencing? "I really sympathise with them. They do all the checking that they can do. It's very frustrating. This new system will reduce the fraud." MasterCard is also stepping up efforts to tackle the problem with its own secure online payment system. But despite the introduction of the new schemes, which are yet to be fully taken up, analysts believe that credit card companies are facing a huge challenge. "They are taking measures, but they are up against a pretty well organised and

determined criminal fraternity," admits Graham Titterton, a senior analyst for Ovum.

The Interactive Media in Retail Group (IMRG), which represents online retailers such as John Lewis, British Telecom and Lastminute.com, as well as SMEs, has been asked by its members to set up a service to share information about fraudsters. "Fraud is an inevitable part of commerce. But it is a huge problem and it is growing very fast. All the liability and risk has been with merchants," says James Roper, the chief executive of the IMRG which is talking with the Early Warning site about the possibility of sharing data. Despite the actions of the credit card companies, the IMRG and its members fear that smart fraudsters can still find ways around sophisticated online payment systems. Roper says that there are even cases of children using credit cards to arrange for deliveries to be sent to derelict houses. He adds that local police forces simply don't have the resources to follow up isolated cases. "It's getting to the point where it is becoming a major problem for everyone and it needs an industry solution." The IMRG plans to unveil its service at the end of this month. There is an urgency about tackling the problem, not only because fraud is hitting SMEs especially hard, but because online shopping is growing and retailers want to minimize their losses. Any attempts to halt fraud have to be handled carefully because the retailers don't want to inadvertently publicise ways in which sites can be defrauded. At the same time, however, the IMRG and its members fear that if credit card fraud on the web is allowed to continue unchecked it could damage irreparably damage the image of e-commerce for companies of all sizes.

Meanwhile, John Sollars of Stinky Ink says that he is looking into the new fraud protection schemes that are being offered by the credit card companies. When he first became the victim of credit card fraud he thought about giving up on e-commerce altogether. But then he changed his mind. "I had spent so much effort setting the business up," he explains. "Things are starting to build up gently. If I hadn't had the fraud in August, I would have a reasonable business by now."

www.early-warning.org.uk
www.imrg.org
www.mastercard.com
www.visaeu.com