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ASSET PROTECTION

Gary Bares

Credit Card Fraud Q&A

In the following Q&A, we answer questions posed to us by clients and industry peers who have been challenged by the complexity of credit card fraud risk management. Topic areas highlight this complexity at both the industry and organizational level. Verifraud's front-line experience and extensive research provide insight into perpetrator behavior, organizational response and the industry ecosystem that has emerged to combat the threat. The following questions and answers address these areas.

Q: What do you find most interesting about credit card fraud prevention?

GB: To me, it's like an intense chess match against an unseen opponent on a moving surface. I've found it to be an incredibly complex discipline in that one must delicately balance all of the competing organizational objectives. When you're involved in a cat-and-mouse game such as this, it's easy to lose perspective but operating with tunnel vision will kill you. It's also easy to want to rely on subjective intuition rather than really looking at the numbers and statistics to see if this intuition is supported by the data.

Q: What are the main challenges for businesses today in terms of credit card fraud prevention?

GB: That same balance. Failure to consider all of the variables involved is one of the most common mistakes that I have seen over the years. I think bringing in good people with broad business knowledge is the best way around this. In the case of the smaller business, this can take the

form of turning to industry experts even if only periodically.

Q: What do you think is the most overlooked part of the equation?

GB: That really depends on what segment of the industry you are looking at. In general, I think that one of the more common mistakes is not focusing enough on internal variables and information. With the threat coming from outside, it's easy to lose sight of all of the internal information and variables that must be considered. It's necessary to design strategies based upon the economics of the firm rather than upon how to stop the next external threat. Such things as thoroughly analyzing historical chargeback data in conjunction with good order data, considering how product margins and the range of product margins come into play, collaborating with other functional areas so that organizational consistency is maintained, etc.

Q: What are the strengths of the prevention industry?

GB: In general terms, I think the strength lies in the open-mindedness and resource commitment shown by most businesses. Media attention on credit card fraud and identity theft has been partially responsible for this fact, though nothing increases open-mindedness like a big loss. I also feel that this increased attention, along with sophisticated technology, has attracted more qualified employees.

Q: What has surprised you the most about the industry in recent years?

GB: Probably how creative the perpetrators have been in finding new ways to

defraud the merchant. When I first started in credit card fraud prevention back in 1991, the schemes were pretty basic and neither the perpetrators nor the prevention people had a whole lot to work with other than the telephone. I remember calling libraries for a criss-cross directory trying to find whatever information I could. Today, the perpetrators are very creative and, armed with technology, very dangerous. Fortunately, the technological advances also facilitate prevention.

Q: Where do you see the greatest opportunities across the industry?

GB: Rather than answering this in terms of individual business solutions, I would say that there are great macro opportunities. If you look at the industry dynamics you see tremendous immaturity, fragmentation and redundancy. The knowledge transfer dynamics really illustrate how the industry is still in its infancy with respect to overall efficiency. The mission of Verifraud, therefore, is to facilitate centralization and knowledge transfer within the industry. If the industry as a whole is to move forward and reach its potential, it must start there.

Q: How do you see the new prevention technology affecting the industry?

GB: There is great opportunity, but at the same time I think that some people lose sight of the fact that the Internet is only one channel. Fraud always finds the path of least resistance. It just so happens that the path of least resistance in recent years has been the Internet, but that doesn't mean that in plugging that hole we rid

ourselves of the problem. Specifically, if more effective tools are implemented on the e-commerce side, I see fraud migrating back to less resistant manual channels. In addition, many people feel that technology/ software will simplify credit card fraud risk management but in reality it actually increases complexity. There never has been, and never will be, a silver bullet when it comes to managing fraud risk. ■

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Gary, along with Darren Skarecky, will be conducting session #15082 at Credit Congress on Wednesday, June 13, from 1:30-3:00pm.

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