

eGift Card Fraud Prevention

Gift card popularity has exploded in the past few years and has a current value of \$318 billion. eGift cards represent 10% of this overall gift card value. Consumers find eGift cards convenient and easy to purchase and regard them as safer than cash. Merchants like them because they drive consumer loyalty and new customer acquisition which translates into higher revenue. Along with these benefits, eGift cards also carry the highest fraud attempt rates of all products sold.



New Digital Channels Can Mean Increased Fraud Risk

eGift card use is fueled by today's tech-savvy consumers and improved in-app delivery and ease of redemption. Yet, this growth masks equally advanced methods of exploitation as well.

Gift Card Fraud Challenges and Opportunities

eGift card purchases are difficult to track. In addition, many online and mobile merchants lack systems that are equipped to prevent fraud as fast as cards are stolen.

Impacts from eGift Card fraud can include chargebacks, operational costs, and dollar losses from stolen goods and services. Merchants face revenue losses as well as impacts to brand reputation.

eGift cards can be fraudulently obtained in many ways:

- 1. Stolen Credit Cards:** Stolen payment data is used to purchase a gift card and email it to an email address which was created by the fraudster to receive eGift card notifications.
- 2. Account Takeover:** Stolen account credentials are used to take over a customer account on a merchant site and use the stored payment methods to purchase eGift cards.
- 3. Triangulation Fraud:** A discounted, high-demand item is advertised in a marketplace. When a legitimate consumer purchases the item, the fraudster uses the stolen gift card to purchase the item online and ship directly to their buyer. The shipping address is for a legitimate person's home or business and looks low risk.
- 4. Discounted Stolen Gift Cards:** Discounted stolen gift cards are sold on a marketplace or other channels. When the buyer tries to redeem the gift card, it may or may not work, because the merchant might have received a chargeback and deactivated it. The resulting brand damage to the customer can result in future lost sales.

eGift Card Fraud Scenario



An eGift card is purchased through stolen credit cards or account takeovers



eGift card is sold to an unsuspecting customer



An item is bought with the bad eGift cards and is shipped to the customer's address



Chargebacks issued for the original eGift card purchase and the item that was sold. Merchant suffers associated penalties, loss of merchandise, brand reputation damage

The Solution to eGift Card Fraud

A multi-faceted fraud solution must go hand-in-hand with an eGift card initiative. Before selling them, merchants should develop a plan that weighs fraud contingencies. A best practice is to create multiple points for fraud detection.

Kount's approach to protecting against eGift card fraud

Kount accurately identifies fraudulent transactions as well as good customers to approve and process sales in real time, fulfilling on the promise of an eGift card.

- 1 Device risk assessment** identifies high risk devices, or high volume activity from a small number of devices.
- 2 Digital identity signals** indicate the relationship between email reputation, age, and history, as well as physical Identity attributes
- 3 Kount's AI** runs supervised and unsupervised machine learning in parallel to quickly detect anomalies, risk, and unusual activity. It evaluates purchasing details such as device, email age, shipping address and product types.
 - **Unsupervised Machine Learning:** utilizes advanced algorithms and models to detect anomalies much faster, more accurately, and on a more scalable basis
 - **Supervised Machine Learning:** analyzes billions of historical transactions from our universal data network and looks for patterns and behaviors that have predicted fraud in the past.
- 4 Business Policies** can be built around desired business outcomes, such as special event promotions and tracking shipping details.

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Kount plays an important role in supporting our multi-layered approach to fraud prevention.”

Tyler Roye
CEO, eGifter



ABOUT KOUNT

Kount protects customers from digital fraud so that they can expand their online business, deliver an optimal user experience, and protect their brand and revenue streams from the negative impacts associated with fraud.