NOFRAUD

Five Signs It's Time to Start Using Fraud Software

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When you start an eCommerce business, fraud prevention isn't usually the first item of business that comes to mind. However, there's nothing more frustrating than getting excited about growing revenue, only to be crushed by an onslaught of chargebacks.

At the end of the day, investing in a fraud prevention solution needs to make sense financially. But here are some great indicators that the investment might already be a smart decision for your business.
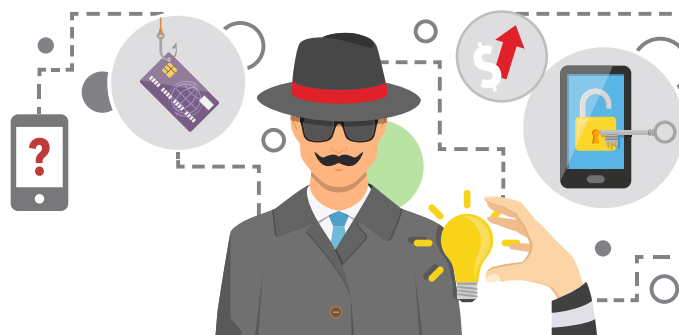
1- Your chargeback costs are increasing

An increase in fraudulent orders is the most obvious reason business owners start looking into fraud solutions. It's hard to ignore the problem when your chargeback costs are creeping up and up each month.

Sadly, word travels fast amongst fraudsters. When one bad actor finds a vulnerability in your process or discovers a new tactic, the odds are that you will keep getting hammered with fraud until that vulnerability is resolved.

Unfortunately, it can be hard to predict when these attacks will start to occur. Many eCommerce companies operate for many years without fraud as a significant issue until, all of a sudden, it becomes a severe problem. When this happens, the answer is simple: invest in fraud prevention or continue to suffer from attacks.

2- You're receiving customer complaints about canceled orders

ECommerce merchants are very aware of the impact of chargebacks on their bottom line. However, the cost of false declines– incorrectly declining good customers on fraud suspicion–is usually underestimated. In fact, Aite Group estimates that the eCommerce industry will experience false-positive losses of $443 billion in 2021, which is about 70 times higher than predicted losses due to actual fraud.

A common mistake that businesses make when reacting to fraud attacks is to overreact. In response to an increase in fraud, it's easy to fall into the trap of throwing everything at the wall just to stop the bleeding.

If you start by using a gateway filter or other rules-based fraud filter, there's a good chance that your approach is over-simplistic and overly conservative. Many business owners think that the best way to prevent fraudsters is to put strict rules in place, for instance requiring a billing/shipping match or an AVS match. The problem is that about 90% of orders with an AVS mismatch are good orders.

The hard truth is that losses from false positives often far exceed losses from chargebacks. When a good customer gets declined, not only are you missing out on the revenue from that sale, but you also risk losing a potential lifetime customer. They may even write poor reviews that turn away other good customers.

If you are already receiving calls from legitimate customers complaining about canceled orders, likely, you're already experiencing losses from false positives that you may not even be aware of. In that case, you require a more intelligent fraud solution beyond a simple fraud filter.

3- Fraud attacks are getting more sophisticated

Another sign that it's time to start looking at a new approach is if the fraud attacks are getting more sophisticated. Even companies using more advanced fraud filters like Kount can often be stumped. If you consistently experience fraudulent orders where you just can't figure out how they did it, it's time to re-evaluate your fraud approach.

Companies that offer financial coverage for chargebacks will remove the financial liability from your company, so you don't need to worry about fraudulent orders getting through. This liability shift also incentivizes them to get to the bottom of tricky fraud patterns to stop sophisticated attacks on your business and others.

4- You introduce high-risk products

Some products are just a hot commodity for fraud. Many of these categories make perfect sense to the layman; for example, the latest Air Jordans will obviously be in hot demand. However, some products that are fraud targets are less intuitive.

For example, one of NoFraud's HVAC supply merchants introduced a product that they soon found out had a double use for illegal activity. They had no idea that this would be a hot ticket item on the black market until they got hit by fraud.

If you're unsure whether or not a new product type you plan to sell is high-risk, it never hurts to ask a fraud expert. At NoFraud, we serve eCommerce businesses in all industries, and we have a solid understanding of the risk profiles for different products.

5- Your team can't keep up with review

Operational struggles are a common problem for companies that use simple fraud filters that require additional manual review. According to the Merchant Risk Council (MRC) Global Fraud Survey, merchants typically manually review 10-15% of online orders, with each review taking on average 5.6 minutes. This time can really add up as your business grows.

We hear many stories about merchants whose orders are shipping late because they just can't keep up with the number of orders they need to review for fraud. These challenges tend to be amplified during busy seasons or sales, making it difficult to adequately staff your team throughout the year.

If these are challenges you struggle with, it's essential to start tracking the person-hours spent manually reviewing orders so you can fully understand your operational costs. Additionally, you should consider the opportunity cost of preventing your team from spending their time on more valuable activities, such as providing excellent customer support.

You may find through this exercise that moving to a full-service fraud prevention solution like NoFraud has a clear financial advantage when you consider operational costs.

Conclusion

While the growth of eCommerce has created innumerable opportunities for entrepreneurs and small business owners, it has also brought in a rise in CNP fraud. However, by being proactive and accurately measuring and weighing the costs, you can easily mitigate these risks with the right tools and partners.

Learn more about NoFraud's fraud prevention solution here >

About NoFraud

NoFraud is an eCommerce fraud prevention solution that integrates directly with your eCommerce platform to stop fraud without turning away good customers.

We use a combination of powerful analytics, diversified data sources, and expert review to provide accurate pass/fail decisions in real-time with a financial guarantee against fraud-related chargebacks.