



FRAUD PREVENTION STRATEGIES

Presented by:

**James Kay, Director of Risk
& Underwriting**

PRESENTATION OVERVIEW

Underwriting

- Procedures
- Documentation

Identifying a Fraudulent Account

Risk

- How is risk assessed and why is it important?
- Types of risk/fraud
- Importance of knowing your customer
- Risk mitigation



UNDERWRITING PROCEDURES

- Verifying the business & the signer
- Pulling FICO
 - Does personal credit impact approval?
- Efficiency
- Unacceptable Merchant List
 - Available on the ISO Interface under *Products-Forms-Documents-Marketing > Underwriting*

UNDERWRITING DOCUMENTATION

What documentation is needed to verify an account?

- Completed MPA
- Documents that verify the physical business location
- A business license or permit
- Previous processing/bank statements
- Website
- Correct volumes and keyed %



PRINCIPAL VERIFICATION

How are principal signer(s) on an account verified?

- Merchant must sign Sections 10, 11, and the Confirmation Page on the MPA
- Signer(s) Driver's License
- Social Security Number
 - Assists in pulling FICO score
 - Allows us to conduct a full MATCH search
 - Accurate OFAC pull

IDENTIFYING A FRAUDULENT ACCOUNT

Below are signs that a deal may not be legitimate:

- Customer inquired about your services online
- Documentation appears forged or invalid
- Signatures do not match
- Customer requests a rush and will agree to very high



IDENTIFYING A FRAUDULENT ACCOUNT

- The more information, the better!
 - Card Not Present (CNP) fraud is the most common
 - Card Present (CP) fraud is not as prevalent, but still exists
 - Home-based businesses are a higher risk
- Why does Electronic Payments ask for all of this information?
 - We have guidelines for a reason
 - The inconsistencies become easier to spot with specific collateral
 - To fully and accurately assess risk

KNOW YOUR CUSTOMER

You are our first line of defense. Keep in mind, we do not know your customer.

- If you know your customer or the deal was provided through a reliable referral source, this greatly reduces risk
- If something doesn't feel right about a deal, please share your thoughts with us so that we can take a closer look



RED FLAGS

Fraud comes in all shapes and sizes, but there are notable themes.

- Internet leads
- Business Addresses
 - If a local address doesn't make sense, let us know!
- MPA Information
 - Fraud tends to gravitate towards @aol.com, @hotmail.com, and @live.com email addresses
 - Signed volumes
 - DBA – Construction or home-based businesses with the signer's name
 - Businesses with an unusual legal name
 - Forged Documents

FRAUD STATISTICS

Each year, billions of dollars are lost as the result of fraudulent transactions at merchant locations. The pandemic has resulted in a sharp increase in fraud.

- The Good News: Credit card fraud is down 1% in 2021.
- The Bad News: Between 2018 and 2020, reports of CC Fraud increased 250%!
- Tracking with CC Fraud, ID Theft reports in the US increased from 650K to 1.68 Million during the same time.

Identity theft statistics by state

Rank & state	Reports per 100,000	Total reports
1. Rhode Island	2,857	30,270
2. Kansas	1,355	39,461
3. Illinois	924	117,056
4. Louisiana	732	34,043
5. Georgia	618	65,666

<https://www.consumeraffairs.com/finance/identity-theft-statistics.html>

<https://www.fool.com/the-ascent/research/identity-theft-credit-card-fraud-statistics/>

RISK OVERVIEW

- What is risk?
- How is risk calculated?
- Types of risk
 - Actual vs. Potential
 - Fraud vs. Credit
- Types of Fraud
- Risk mitigation
 - Reserves
 - Shutdowns





WHAT IS RISK?

Risk is an estimation of financial harm a merchant's business can do to a merchant services provider (MSP).

Electronic Payments essentially offers a line of credit:

- All merchants provide products or services that have an assumed quality assurance (e.g. delivery, returns, quality)
- Should the merchant not meet the assumed quality assurance, customers will not be satisfied.
 - Will lead to refunds or chargebacks
 - Should the merchant not meet their financial responsibilities, the MSP is on the hook for any losses

WHAT DRIVES RISK?

- Longevity
 - A newer business elevates risk
- Stability
 - A financially unstable business may indicate that at any point in time, it may not be able to support the risk
- Industry
 - Certain industries pose a higher risk than others due to how they process transactions. For example, CP transactions are inherently safer than CNP transactions.
- Processing History
- Credit Score
- Billing Method

TYPES OF RISK?

There are several ways to outline your risk:

- Actual & Potential Risk
 - Actual risk is real dollars that we can label as our risk that has been processed through the account
 - Potential risk is the calculated dollars we estimate we could lose on an account
- Fraud & Credit Risk
 - Fraud risk involves accounts opened with a stolen identity, where a legitimate merchant is victimized, or collusion scenarios
 - Credit risk involves calculating the risk based on assumed or actual processing patterns coupled with the delivery days



The slide features a white background with decorative palm leaf illustrations. In the top-left corner, there are blue palm fronds. In the bottom-right corner, there are blue and yellow palm fronds. The title 'COMMON TYPES OF FRAUD' is centered at the top in a dark blue, sans-serif font, with a thin blue horizontal line underneath it.

COMMON TYPES OF FRAUD

- Identity Theft
- Merchant Fraud
- Collusion
- Refund Fraud
- Counterfeit Fraud

RISK MITIGATION

There is risk on every account that comes through the door

- Risk mitigation starts in Underwriting
 - Everything we discover about the business helps mitigate potential risk
- Mitigation continues when the account is processing
 - The merchant needs to be involved in fraud prevention and risk mitigation
 - What can the merchant look for?
- Reserves and shutdowns
 - Reserves are used to offset risk the merchant cannot support
 - Reserves are rarely requested upon approval of an account
 - After review, we may deem it necessary to take a reserve on a merchant's account

LET'S REVIEW

- Fraud detection and risk mitigation start in Underwriting
- Know what to look for in supporting documentation
- Risk comes in all forms
- Know your customer
- A reserve may be held, but only after a review of the merchant's business and processing
- We are all on the same team with the same goal



QUESTIONS?

For general Underwriting or Risk needs, please email:

underwriting@electronicpayments.com
risk@electronicpayments.com

For escalated inquiries contact me directly:

800-966-5520, ext. 0294
james.kay@electronicpayments.com

