Gift Cards: The Threats and Opportunities of Digital Delivery

Estimates of the size of the digital gift card market vary, but a report from New York City-based research firm Persistence Market Research said global sales of digital gift cards and vouchers totaled $307 billion in 2017 and will grow to nearly $700 billion by 2024. Other estimates were not as gaudy (one report from Mercator Advisory Group pegged the U.S. market for store-branded digital gift cards at $14.4 billion in 2018), but the trend is apparent and figures to continue. Forty-one percent of consumers in Gen Z (those born after 1995) purchase e-gift cards at least once every three months, along with 39 percent of Millennials, according to Blackhawk Network, a company that sells gift cards through supermarkets, pharmacies and other third-party stores. Without question, digital delivery is becoming an important channel for any company that issues or sells gift cards or plans to in the future.

$307B — Global Sales of Digital Gift Cards in 2017

$700B — Global Sales of Digital Gift Cards in by 2024

Percentage of Gen-Zers who purchase an e-Gift card at least once every three months — **41%**

39% — Percentage of Millennials who purchase an e-Gift card at least once every three months

Because digital gift cards can be sent, stored and used on mobile devices, they are quickly becoming a preferred format for younger consumers and for last-minute shoppers. The very characteristic that makes digital delivery so convenient for shoppers, however, also makes e-gift cards a very appealing target for fraudsters—even more than physical gift cards.

"The big issue is customer expectation," Geoff Blackburn, e-commerce fraud manager for omnichannel payments and fulfillment provider Radial. "Both the time in which an e-gift card needs to be delivered (nearly instantaneously) and the time a customer can turn around and use it are extremely short. The time between when an order for a digital gift card is placed and when it can be used at a merchant's site as a tender could be only a few minutes."

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This set of circumstances means it is very difficult to spot fraud and stop a fraudulent order before a criminal gets his hands on an e-gift card, which, like their plastic brethren, are very easily monetized. In fact, e-gift overall experiences one of the highest attack rates of any product Radial's merchant clients sell. Fraudsters attack digital gift cards at a rate of nearly 17 percent.

Broken down by vertical, Radial's numbers can be even more startling. The attack rate for open-loop gift cards (those branded by Visa and Mastercard not connected with a specific retailer) is nearly 21 percent, while entertainment companies that offer digital gift cards see attack rates of 24 percent. E-gift cards offered by jewelry merchants, which top the list, are attacked by fraudsters nearly 28 percent of the time.

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COMMON SCAMS

Most fraud on e-gift cards mirrors that of physical gift cards: fraudsters use a stolen credit card to buy them. Eventually, the consumer victim recognizes the unfamiliar charge and often initiates a chargeback. But this is not the only way bad actors illegally access e-gift cards. According to Blackburn, innocent people often fall for scams in which they are contacted by a fraudster purporting to be from the IRS who says they owe the agency money and to send a gift card. While it seems unbelievable that someone would fall for such a ploy, many do.

Account takeover is also a very popular method of accessing gift cards and making fraudulent purchases. Once logged into an illegally accessed account, fraudsters will either use the credit card on file or a stolen card to create a purchase making the order appear legitimate to many fraud systems. Merchants that have stored value cards attached to customer accounts are especially susceptible because fraudsters can transfer that value to an account created by the fraudster or simply change the email address and send themselves the value in an e-gift card.

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21% — Attack rate for open-loop gift card (branded by Visa or Mastercard and not connected with a specific retailer

Attack rate for entertainment company e-gift cards — **24%**

28% — Attack rate for e-gift cards offered by jewelry merchants

SECONDARY MARKET FOR GIFT CARDS

Also complicating the fraud landscape for e-gift cards is a thriving secondary market where online marketplaces buy unwanted gift cards from consumers enabling the original recipient to turn them into cash. For proprietors of the marketplaces, the fraud is complicated because it can be either the buyer or the seller engaged in the illicit activity. And, despite the fact that the original merchant is no longer in the picture, they are not clear from risk.

Usually, when merchants receive a chargeback or report of confirmed fraud on a gift card, they retract the remaining funds on the card to mitigate the loss from the chargeback. When consumers purchase cards from a secondary-market site (which becomes the merchant of record), many still assume the original merchant is required to guarantee the funds on the card even though chargeback rules state only the merchant of record is required to repay the consumer for the purchase of a gift card that has been frozen.

Unfortunately, the confusion can affect all involved. The secondary marketplace is liable for the chargeback, but the consumer's mistaken belief that the original merchant (if it is a closed-loop retailer gift card) is responsible could impact the situation and the consumer's trust in the retailer.

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Some reseller sites have a 60-day guarantee on gift card funds. In these cases, they may issue refunds once they research the situation. If the site does not offer a guarantee, consumers can attempt to obtain their funds via a chargeback to the merchant. If a consumer purchased a gift card directly from a fraudster via a classified ad or online auction site those funds most likely cannot be recouped.

Regardless of the legal liability, consumers likely will place the blame on the merchant that issued the gift card. So, while merchants are not required to re-issue funds on cards sold by a secondary source, sometimes it becomes a customer service issue and they will do so to preserve the reputation of their brand.

PREVENTING E-GIFT CARD FRAUD

The biggest risk for retailers selling digital gift cards is the extremely short turnaround time that renders manual review an inefficient means of fraud prevention. Merchants simply don't have the time or manpower to devote to reviewing orders that consumers expect to be filled immediately. Effective systems that automate this process are paramount.

But there are other steps merchants can take to mitigate their risk. While automation of the process is important for e-gift orders, if a company decides manual review is necessary (an especially high-value transaction, for example), it should not send any e-gift card information to the customer until the transaction has been approved.

While holidays are a busy time across the board, they are especially busy times for gift card sales. Tune tools for this and assign senior analysts to e-gift transactions.

When reviewing e-gift card orders, remember that the recipient's e-mail address is essentially the shipping address and consider using an e-mail address verification tool to determine if it has been used for a long time, or was just created for the purpose of ordering gift cards.

Work with the customer service department to have a consistent policy and standard messaging when communicating with consumers. It also may be beneficial to have messaging on your website specifically stating your company will only guarantee the funds of gift cards purchased directly as opposed to through secondary marketplaces.

It is important to prevent this type of fraud before the e-gift card is ever issued. If that is not possible, catching the fraud before it is redeemed should be your fraud team's next priority. If you are unable to prevent e-gift card fraud prior to the transaction being finalized, it is still important to attempt to identify the fraud and cancel the gift card. Unlike fraud on hard goods, if funds on a gift card are recovered, the loss to the company can be greatly reduced.

CONCLUSION

It used to be for e-commerce merchants that rigorous fraud prevention and a smooth user experience stood in opposition to one another. Merchants no longer stand for that. They understand that to succeed, they must give consumers what they want and need in a frictionless way, while their fraud prevention remains invisible to all but the fraudsters.

E-gift cards are becoming a must for retailers. The convenience they provide is unparalleled, but the instant delivery shoppers expect makes them a ripe target for fraudsters. Retailers that offer digital gift cards, especially in verticals like jewelry and entertainment where fraud rates soar, must take the steps they can to address threats in a way that doesn't jeopardize the customer experience and trust.

ABOUT RADIAL

Radial Inc., a bpost company, is the leader in omnichannel commerce technology and operations. Premier brands around the world confidently partner with Radial to deliver their brand promises, anticipate and respond to industry disruption, and compete in a rapidly evolving market. Radial's innovative solutions connect retailers and customers through advanced omnichannel technologies, intelligent payments and fraud protection, efficient fulfillment, supply chain services, and insightful customer care services – especially where high-value customer experiences are critical. We are flexible, scalable, and focused on our clients' business objectives. Learn how we deliver today's retail for you at radial.com.

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