The Evolution of an Expert Fraud Investigation Team
Fraud investigation teams are an essential part of managing eCommerce fraud, but with the proliferation of fraud tools, they have become somewhat of a taboo topic in the industry. Many of the new fraud solutions suggest that fraud investigator reviews can be completely eliminated and, instead, merchants can rely solely on machine learning to make conversion decisions on all orders. But what happens to the orders machine learning models deem too risky to process? Even the most advanced machine learning systems cannot reason, perform deeper investigations, or connect the more obscure dots on “risky” orders—that all requires human intelligence. In reality, these “risky” orders are frequently labeled as fraud when they could actually be legitimate orders. In addition to creating a poor customer experience, these machine-enabled errors also reduce profit.
Consider the following scenario:

You are shipping an order a long distance to a person that is not the cardholder. The IP address where the order is placed is from a third location; you have never seen this customer before, and the purchase has a high order value of $2,000 with overnight shipping.

Is this a criminal stealing credit card information and shipping the stolen merchandise to himself, or is it a legitimate customer sending a gift across the country? Orders that are layered with suspicious attributes will often trip up a machine learning model. It takes human ingenuity to identify:

- The IP was off because the cardholder was traveling for business.
- He needed the item quickly because it was a last minute birthday gift.
- The gift recipient lives in a different state.

It’s important to note that orders should be held for review in extremely low percentages. To produce the most manageable order review population, merchants should utilize data analytics and strive to make the fraud investigator queue as fraud rich as possible. Having a team that can review the small percentage of orders that would otherwise be canceled by many fraud tools ensures higher order conversions of legitimate orders, less friction for the customer, and added revenue for the merchant.

While fraud investigation teams are essential, not all teams are created equal. To achieve the optimum results, merchants should deploy a professional fraud investigation team whose breadth of knowledge and responsibilities enable the most sales and create the best possible customer experience.
Exploring the evolution of a fraud investigation team will help merchants understand their true value.

Call Center Order Investigation Teams

A fraud investigation team is usually created by a company when it realizes it is losing money from fraud loss and needs to take action. These teams typically begin in a call center where the agents are dual-purposed as customer service representatives and fraud investigators. These early-stage teams have little to no analytic capabilities, causing the investigators to manually review far too many orders. The team utilizes basic fraud screening tools and, due to limited metrics and quality measurements, it struggles to deliver high-quality decisions. While some fraud is prevented, there is a higher incident of false positives that ultimately impacts a merchant’s bottom line.

Standard Banking Hours Fraud Investigation Team

As a company grows and gains a better understanding of the financial and customer experience impact of using a dual-purpose fraud investigation team, it realizes adjustments are needed. The dual-purpose customer service representatives are converted to full-time fraud investigators, generally working a five-day workweek from 9 a.m. to 5 p.m. With more advanced tools and methods for fraud screening, this team is better at identifying fraudulent orders. Fraud review best practices are created and goals with key metrics are set for all fraud investigators to ensure consistency.

Depending on the size of the team, coverage may also be expanded to weekends. While this team may do a better job at minimizing financial loss, there are still gaps that impact the customer experience. Without 24x7 coverage, there are lapses in order reviews that cause delays in order processing. Limited analysis capabilities directly impact data quality and, ultimately, the type and quantity of orders held for investigator review.
Professional Fraud Investigation Team

A professional fraud investigation team operates 24x7, 365 days a year. While its goal is to prevent as much fraud as possible, it also adds value in the following key performance areas:

**Data Analysis** - Fraud investigators perform analysis, suggest rule changes, and block and link on fraud trends to identify orders that either should, or should not be held for review. Their expertise enriches data quality and establishes a more efficient rules engine to ensure the investigator review queue is as fraud rich as possible.

Eventually, investigation teams spin off higher level analytical teams that strictly focus on rule analysis. Fraud investigators give constant feedback to these dedicated rule professionals to ensure the outsort rate is always optimized.

**Customer Experience** - Professional fraud investigation teams balance fraud loss and customer experience flawlessly. They place a strong emphasis on minimizing false positives and avoid canceling good orders at all costs. The team adheres to strict time-in-review goals to ensure any order held for review is prioritized and processed as efficiently as possible to meet customer SLAs.

**24x7 Review Coverage** - This is a big differentiator from the “standard banking hours” fraud investigation team because, unlike banks, online retailers do not close. A 9 a.m. to 5 p.m. five-day workweek simply cannot satisfy the dynamic nature of eCommerce fraud. Professional fraud investigation teams have 24x7 coverage to ensure minimum time in review. For some purchases, such as digital gift cards and in-store pick up orders, customers expect their delivery within a few hours. With 24x7 coverage, someone is always available to ensure decisions are made promptly and sales are converted quickly.

**Scalability to Meet Demand** - These expert fraud teams are able to manage spikes in demand without hiring additional people. They can identify fraud trends to work orders in bulk and decrease the time in review when going through orders one by one. Since the department’s analytical teams are also highly skilled in order investigations, they can help the fraud investigation team scale to meet increased order volumes during seasonal and promotional periods.
By now, it should be obvious that building a professional fraud investigation team is a difficult and lengthy process. Even if a merchant succeeds in that essential 24x7 dedicated coverage, it’s unlikely the results will be any better than the industry average due to the lack of expert analytics backed by big data. That means a lot of money will still be left on the table. Fraud management is best left to experts.

Consider the following for a $50M eCommerce merchant processing 300,000 orders per year with an average order value of $150.00. Based on industry averages outlined below, more than 8,000 orders will be rejected and 54,000 orders will be held for manual review—both creating significant impact to legitimate customers. More importantly, if the LexisNexus Multiplier of $2.40 for every dollar of fraud is factored in, nearly $1M is being lost to fraud. When left to experts, almost 7,000 fewer orders are rejected and more than 45,000 fewer orders are manually reviewed. And depending on who you partner with for that fraud management expertise, your fraud cost could be $0.00.

It’s time to ask yourself if you are effectively managing fraud. If the answer is “no” or “I’m not sure,” it’s time to talk to the experts.

<table>
<thead>
<tr>
<th>Professional Fraud Investigation Team*</th>
<th>Industry Average $25M - $100M eCommerce Merchants**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Order Reject Rate</strong></td>
<td><strong>Manual Review Rate</strong></td>
</tr>
<tr>
<td>% of orders rejected for fraud</td>
<td>% of orders manually reviewed for fraud</td>
</tr>
<tr>
<td>0.39%</td>
<td>2.99%</td>
</tr>
<tr>
<td></td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>Fraud Rate</strong></td>
<td></td>
</tr>
<tr>
<td>Revenue lost to fraud</td>
<td></td>
</tr>
<tr>
<td>0.00%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

*Source: Radial client results
**Source: Cybersource 2016 NA Fraud Benchmark Report

For more information about our service solutions, call us at 610.491.7000
© 2016 Radial Inc.
About Radial

Radial is the leader in omnichannel commerce technology and operations, enabling brands and retailers to profitably exceed retail customer expectations. Radial’s technical, powerful omnichannel solutions connect supply and demand through efficient fulfillment and transportation options, intelligent fraud, payments, and tax systems and personalized customer care services.

Hundreds of retailers and brands confidently partner with Radial to simplify their post-click commerce and improve their customer experiences. Radial brings flexibility and scalability to their supply chains and optimizes how, when and where orders go from desire to delivery. Learn how we work with you at www.radial.com.

Or contact us:
sales@radial.com
1-877-255-2857

Authors:

PJ Rohall
Supervisor | Fraud Management

Darnell Wilkins
Senior Product Strategist | Product Management

Louisa Rupp
Senior Manager | Omnichannel Product Marketing