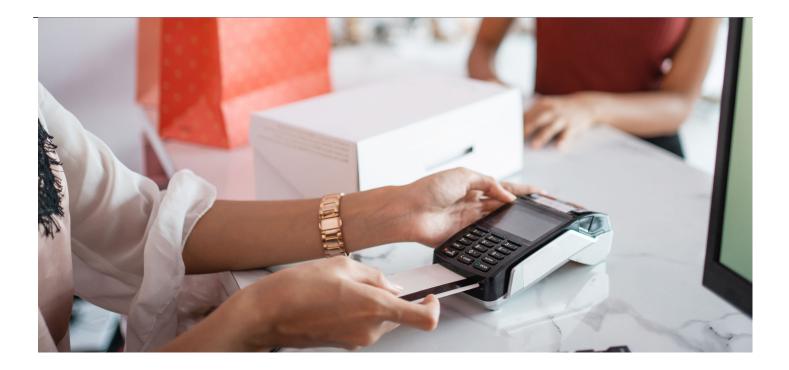
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With the holiday shopping season in everyone's rear view mirrors, retailers now have to deal with the aftermath: product returns. According to a <u>new National Retail Federation (NRF)</u> study, consumer product returns total 16.6 percent of total U.S. retail sales. This is a sharp increase from the 10.6 percent rate from 2020. The rate of e-commerce returns for 2021 is even higher: 20.8 percent. Unfortunately, an increase in product returns means an increase in fraud.

10.6 percent of All Online Purchase Returns Were Fraudulent

The categories with the highest return rates were similar to 2020 metrics: auto parts (19.4 percent), apparel (12.2 percent) and home improvement and housewares (tied at 11.5 percent). The most common types of payment used during the original purchase that led to a return were credit cards (22.78 percent), cash (12.69 percent) and debit cards (7.04 percent).

NRF data also shows a troubling trend in retail fraud increasing: for every \$100 in returned merchandise accepted, retailers lose \$10.30 to return fraud. Overall, 10.6 percent of all online purchase returns were fraudulent – in other words, \$23.2 billion of the \$218 billion in online purchases returned.

Return fraud is an online scam that occurs when someone claims an invalid refund or credit from a merchant. Return fraud can be committed by individuals and organizations.

Fraudsters employ several approaches, including, but not limited to:

- Fraudsters might rely on sites that sell fake digital or physical receipts. The fraudster uses these resources to commit fraud without making a purchase from the targeted retailer.
- A fraudster may use a stolen credit card to buy the item online, and then return the effectively stolen good in store for a refund.

Many scams are harder to pull off in a physical store because of the existence of bar codes on products and receipts. That's why return fraud is even more of a threat for e-commerce merchants.

According to Worldpay's 2021 Payment and Risk Mitigation Survey of merchants, payment fraud affects 60 percent of merchants' direct costs including revenue losses, higher chargeback volume, back-office operational expenses, and legal fees. In addition, fraud hurts the entire ecosystem, including the eCommerce and mobile commerce companies that work with retailers.

What Retailers Should Do

At Centific, we recommend that retailers:

- Consider return fraud in context of a broader strategy to fight fraud. Understand the big picture and how forms of fraud relate to each other.
- Combine AI-enabled technology with people and processes to fight fraud across the entire customer journey. No human being or team of humans can fight fraud without AI. But AI alone will not catch fraudsters. AI models needs people to train and supervise them – not just to catch fraud but to avoid mistakes such as flagging valid transactions as fraudulent.

Doing this requires retailers to combine better tools, best practices, and partnerships to reduce risk, improve the customer experience, and safeguard the business.

That's what we do at Centific. Centific's fraud protection service and solution has reduced risk through accelerated detection, classification, protection, and real-time monitoring using the cognitive decisioning platform in a robust way, further augmented by our human intelligence team of experts around the globe. Our AI fraud protection framework has realized business value as demonstrated by reductions of false positives by 20 percent; more than \$100 million in operating expense savings; and an increase in revenue of more than 10 percent with improved bank acceptance rate of transactions.

Contact Centific

Online return fraud is getting worse. But retailer can beat the criminals by combing AI with human oversight and processes. To learn more about how we can help you fight combat fraud with augmented intelligence, <u>contact Centific</u>.

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