

More effectively monitor fraud to reduce merchant risk



Business Impact

Fraud losses to merchants occurred overwhelmingly from CNP transactions, and the problem is aggressively worsening. Losses to CNP fraud ... were \$5.65 billion. Losses to card issuers worldwide reached \$15.72 billion or 72% of gross fraud losses worldwide. By 2020, card fraud worldwide is expected to total \$31.67 billion.

The Nilson Report, October 2016

Challenges

- **More digital and online payments.** The prevalence of conducting online purchases with merchants on an array of digital devices is making it more difficult for merchant acquirers to mitigate fraud.
- **Lack of effective merchant processing risk assessment programs.** The risk merchant acquirers have taken on hasn't been addressed with dedicated real-time fraud detection due to post-processing controls. But increasingly common real-time settlements make real-time controls critical.
- **Merchant liability.** Although a merchant acquirer suffers losses from fraud, new initiatives such as 3-D Secure and EMV chips are creating changes in liabilities.

The Issue

Merchant acquirers (payment facilitators) are vulnerable to fraud in a multitude of ways. Although there's a heightened focus on identity theft and third-party fraud, a significant percentage of financial losses associated with payment acceptance is the result of organized crime, credit risk and first-party fraud resulting from inadequate monitoring of merchant accounts and financial loss from unfunded chargebacks.

Historically, chargeback regulations have permitted some transfer of losses back to a merchant; however, new payment initiatives don't always have such rigorous control of responsibility. Banks will be obligated with more of this burden and will need stronger partnerships with payment processors to minimize and combat fraud in all its forms, not just card fraud.

Fraudulent transactions, penalties for excessive fraud, chargeback rates and real losses from collusive and runaway merchants require merchant acquirers to have effective fraud and risk management programs. Risks from new payment types, where the mandated security controls applied by the associations (e.g., Visa and Mastercard) no longer apply, will place the merchant at much greater risk for fraud.

Our Approach

Within financial services, SAS® is proven to detect card and payment fraud to deliver protection to banks and consumers on merchant risk. SAS provides software and services to help you:

- **Profile payment acceptance and gateways to highlight suspicious transactions in real time.** Apply machine learning models and rules to identify the payment as suspicious or merchant as risky and allow the merchant acquirer to decide when to intervene, either directly or before settlement into the merchant account.
- **Assess and visualize data quickly and accurately.** Besides visualizing merchant data to detect fraud, monetize the data as a secondary business opportunity.
- **Centralize merchant risk.** Process merchant onboarding and payments in a single solution.
- **Lower your total cost of ownership by combining channels.** Reduce your data storage and shared infrastructure using a single vendor.

The adaptability of SAS solutions meets the demands of the new era in payment processing fraud detection – supported by a sharp focus on customer enablement, technical innovation and consulting expertise. Only SAS delivers:

- **Data integration.** Data transformation, standardization and enrichment are key to SAS adaptability for payments data, as well as nonstandard, third-party data formats. With the increase in available data, payment service providers can offer additional service benefits.
- **Machine learning.** A rules-only approach has historically been used to satisfy the needs of monitoring merchant activity, but this approach is no longer adequate. The need to efficiently apply operational expertise, along with the reduced window of clearing and settlement, make right-time decisioning critical in today's environment. Harness the power of SAS Analytics using the most advanced modeling techniques to detect fraud exposure. Using flexible anomaly detection and segmentation of merchants based on their transaction profile, SAS machine learning algorithms identify suspicious changes in activity, providing confidence in the risks being identified. SAS machine learning modeling has flexible profiling through Signatures that support merchant and PSP monitoring.
- **Alerts.** With SAS data visualization on alerts, you can see different aspects of merchant data, KPIs and trends to understand emerging risks. Additionally conduct business process management through auto-contact policies by integrating with SMS gateways and SMTP servers to allow a reduction in manual operational workload.

Situation

One of the top five Asia Pacific merchant acquirers serves 260,000 merchants with 350,000 terminals processing 1.8 billion merchant transactions. The merchant fraud tool in use was no longer effective, as it processed as a batch solution 24 hours after payment authorization and had rule limitations that affected merchant fraud detection.

Solution

A SAS implementation of merchant acquirer fraud detection provided:

- Immediate real-time processing cover and the capability to support real-time decisioning in the future.
- Combination with issuing data further enriched covering merchant data.
- A preferential profiling capability to track sales to fraud activity.
- Expanded coverage of products and channels to use the SAS Platform as a true enterprise architecture.

Results

- New enhanced rule capability reduced alert volumes by 25 percent.
- Allowed issuer and merchant data to increase fraud detection.
- Enriched messages reduced transaction processing and duplication of storage.

- Look at the big picture of transactions by making the best use of issuer and merchant data across your lines of business to mitigate fraudulent behavior.
- Continuously perform merchant risk assessment from onboarding to payment integrity to confirm that merchants are selling what they are supposed to be selling after being accepted into acquirer programs.
- Lower the risk of transactions by detecting suspicious activity faster with a machine learning platform.
- Amortize investments quicker.

You can. SAS gives you THE POWER TO KNOW®.

SAS Facts

- SAS customers make up 96 percent of banks in the Fortune Global 500®.
- Over 90 percent of the top 100 global banks use SAS.
- More than 3,100 financial institutions worldwide are SAS customers.
- SAS has more than four decades of experience working with financial institutions all over the world.

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