

# The \$23B Fraud Problem in Retail

## Why Contact Centers are Soft Targets and How to Fix Them

### 5 Numbers to Know about Retail Fraud

- Retailers lose **\$23B** in fraudulent returns every year  
*NRF survey on Cost of Retail Returns 2022*
- Concession Abuse operates as a well organized service with **2K+** "service providers"  
*Research from Arizona State University*
- Fraudsters have created detailed returns and abuse profile of the **top 250 merchants**  
*Research from Arizona State University*
- **1 in 100** calls in retail can be fraud, 7x higher than in other sectors  
*Pindrop Labs*
- Top US retailer generated **5x ROI** by implementing Pindrop fraud prevention  
*Pindrop Labs*

# \$23B

Retailers lose \$23B in fraudulent returns every year

US e-commerce is forecasted to grow by \$500 billion or by 54% between 2023 and 2027<sup>1</sup>. This growth has brought unprecedented opportunity for the retail industry but it has also created openings for fraudsters. There's been a significant increase in online and e-commerce fraud activity, with fraudsters stealing 3.6% of all e-commerce revenue in 2022<sup>2</sup>. Retail organizations of all types including department, specialty, discount, catalog, internet, independent stores, drug stores and grocery stores have been impacted.

Return policy is a crucial element to e-commerce. 62.58% of online customers expect retailers to offer returns within 30 days of purchase while a high number of retailers (49%) do offer free return shipping<sup>3</sup>. A consumer friendly return policy is a key strategy for retailers to stay competitive but it also comes with a significant element of fraud risk. For e-commerce companies, an astonishing 14% of returns have been found to be fraudulent<sup>4</sup>. Estimates from the National Retailers Federation reveal that e-commerce return fraud may be costing US retailers \$23 billion annually.

<sup>1</sup> Statista, revenue of the e-commerce industry in the U.S. 2017-2027

<sup>2</sup> Developing a Framework for Understanding and Measuring E-commerce Losses in Retailing, 2023

<sup>3</sup> Ecommercefastlane.com 7 Ecommerce Returns Statistics That Will Blow Your Mind!

<sup>4</sup> ECR Community Buy Online, Return in Store, The Challenges and Opportunities of Product Returns in a Multichannel Environment, 2019



# Refund operates like a well organized service

Concession abuse targets online retailers by exploiting the returns process. A fraudster seeks to receive a concession (a free replacement or a refund) from a targeted retailer by socially engineering the contact center agent. An underground industry exists around concession abuse that organizes these attacks into a coordinated scheme of different actors and increases the chances of successfully pulling off such frauds. This ecosystem is referred to as Concession Abuse as a Service (CAaaS) and consists of 2,251 “service providers” (and growing), who are adept at abusing returns<sup>5</sup>. This is how fraudsters work through a CAaaS system:

- Target **large merchants** because they have robust customer service departments and are more willing to risk a financial loss in exchange for customer satisfaction
- Prefer shopping accounts with a **long order history and few refund or return claims**, because such accounts closely resemble those of loyal customers.
- **Seek compromised accounts with recent orders** because refund requests for recent orders appear routine to agents and avoid unnecessary scrutiny.

# Fraudsters have created detailed returns and abuse profile of the top retailers

Retailers have customer friendly and flexible returns processes for good reasons—competitive advantage and good consumer experience. The fact that malicious actors abuse it is an unfortunate side effect that needs to be addressed. Around 40 retailers from various categories ranging from electronics, clothing, home decor and even pet foods are on the target lists of these fraudsters. Overall, the CAaaS fraudsters have a list of 264 retailers in their crosshairs with a good understanding of their return policies and tactics to exploit them<sup>6</sup>.

### D Service List of a Scam Service Provider

Table 14: A Concession Abuse service list.

Store Category	Payment Method	Store	Limit (\$€)	Items	Pay Rate (%)	Region	Avg Time
Clothing	Credit/Debit Card	Abercrombie & Fitch	No Limit	Multi	25%	Worldwide	1 Day
		Macys	No Limit	One	25%	USA	1 Day
		Hollister	No Limit	Multi	25%	Worldwide	1 Day
		Zappos incl Luxury	30,000	Multi	25%	USA	1 Day
	PayPal	Armani	3,000	Multi	25%	Worldwide	10 Day
		Stone Island	No Limit	Multi	15-25%	Worldwide	2-3 Weeks
		StockX	No Limit	One	15-25%	Worldwide	2-3 Weeks
		YOOX	No Limit	Multi	15-25%	Worldwide	2-3 Weeks
		Dolce Gabbana	No Limit	Multi	15-25%	Worldwide	2-3 Weeks
		Mr Porter	No Limit	Multi	15-25%	Worldwide	2-3 Weeks
Electronics	Credit/Debit Card	Walmart	30,000	Multi	25%	USA	1 Day
		Target	30,000	Multi	25%	USA	1 Day
		Google Express	12,000	One	25%	USA	5-10 Days
		Apple	5,000	One	25%	USA	1-3 Days
		Lenovo	5,000	One	25%	USA	1-2 Weeks
	PayPal	Canon	No Limit	Multi	15-25%	Worldwide	2-3 Weeks
		Dell	No Limit	One	15-25%	Worldwide	2-3 Weeks
		Microsoft	No Limit	Multi	15-25%	EU/US/CA	2-3 Weeks
		Google Express	No Limit	Multi	15-25%	Worldwide	2-3 Weeks
		HP	No Limit	Multi	15-25%	Worldwide	2-3 Weeks
Beauty	Credit/Debit Card	Sephora	3,000	Multi	15-25%	Worldwide	1-5 Days
		Lancome	1,000	Multi	15-25%	USA	3-10 Days
		MAC Cosmetics	1,000	Multi	15-25%	Worldwide	3-10 Days
		Urban Decay	1,000	Multi	15-25%	USA	3-10 Days
		Estee Lauder	1,000	Multi	15-25%	USA	3-10 Days
Outdoors	Credit/Debit Card	Fanatics	1,000	Multi	15-25%	USA	1 Day
		NBA/NFL/NHL Store	1,000	Multi	15-25%	US/CA	1 Day
		Oakley	1,000	Multi	15-25%	Worldwide	5-7 Days
		Rayban	1,000	Multi	15-25%	Worldwide	1-3 Days
		Sunglass Hut	1,000	Multi	15-25%	USA	3-10 Days

<sup>6</sup> <https://www.usenix.org/system/files/sec21-sun-zhibo.pdf>

<sup>5</sup> Arizona State University, Texas A&M University, Rochester Institute of Technology, Samsung Research: Having Your Cake and Eating It: An Analysis of Concession-Abuse-as-a-Service, 2021

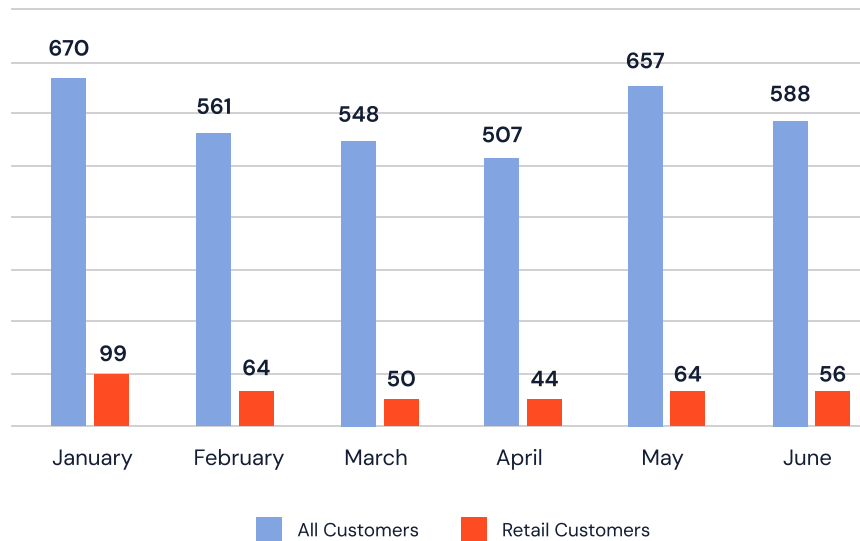
<sup>6</sup> Arizona State University, Texas A&M University, Rochester Institute of Technology, Samsung Research: Having Your Cake and Eating It: An Analysis of Concession-Abuse-as-a-Service, 2021



## Fraud calls in retail are 7x higher than in other sectors

The contact center is the final stage in the execution of a concession abuse fraud. Agents do employ steps to create friction during the return process but the various fraud specialists that exist in the CAaaS ecosystem figure out ways to bypass these methods.

As a result we observe a significantly high fraud rate in retail contact centers. According to research from Pindrop Labs<sup>7</sup>, 1 in 99 calls at a large US retailer are fraudulent. In comparison, the fraud rate across all of Pindrop's customer base is 1 in 600 calls.



Fraudsters typically contact agents through multiple channels but prefer phone calls:

- An agent has less time to respond making it harder to spot unusual behavior or patterns.
- Fraudsters can more effectively manipulate the agent with social engineering.

Contact center phone channel is a key point of vulnerability that needs to be fixed.

<sup>7</sup> Pindrop Labs analysis of fraud call rates at contact center agent leg



## Case Study: Pindrop® Protect

With voice, device, and behavior analysis, and real-time risk assessments for each call, our solution resulted in 22% more fraud detected and a 58% lower false positive rate.

### PROBLEM

The retailer was battling a surge in call center fraud, primarily from social engineering and "Refund Fraud as a Service" schemes, leading to a fraud call rate of 1 in 60. This abuse of customer-focused policies was causing significant financial losses and risking the brand's integrity, with e-commerce return fraud estimated to cost US retailers \$23 billion annually.

### SOLUTION

Pindrop® Protect's comprehensive solution, featuring voice, device, and behavior analysis, provided real-time risk assessments for each call. A standout feature, "Negative VoicelD," identified and prevented repeated fraud attempts by matching callers' voices with known fraud profiles, significantly reducing fraud losses and improving the customer experience.

## Value delivered

**Over \$10 million** in fraud losses and an additional \$1 million in chargeback processing savings projected in the first year.

**22% more fraud detected** and a **58% lower false positive rate** with Pindrop® Protect, further reduced to under 5% after full implementation.

**45 fraudsters linked to 3,429 calls** identified by "Negative VoicelD," preventing considerable fraud losses.

**Operational savings** anticipated from reduced fraud call handling.

[Read the full case study](#) for a detailed account of how Pindrop® Protect enabled this retailer to significantly improve security and customer satisfaction. Learn how your business can benefit from Pindrop® Protect's innovative fraud prevention technology.



Schedule a call with one of our experts today

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