First Data™

Sunshine *ACE* Hardware uses First Data to thwart retail crime

Case Study

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Introduction

In today's world, retailers earn a sizeable amount of revenue from card transactions. Debit and credit cards account for more than two thirds of non-cash transactions.[i] The total number of credit card transactions in the U.S., according to the 2013 Federal Reserve Payments Study, amounted to $26.2 billion dollars in 2012.[ii]

However, organized retail fraud in the form of unauthorized credit transactions continues to rise as well. Major security breaches continue to be reported. According to published reports, up to 110 million customers' sensitive data was at risk when Target was breached in December of 2013.[iii] Just this year alone there have been security breaches reported in the following businesses:[iv]

- Michael's
- Sally Beauty Supply
- Experian
- eBay
- P.F. Chang's
- Goodwill
- Home Depot

These security breaches allow criminals to generate counterfeit cards and matching driver's licenses. Armed with these tools, they are ready to visit a retail store and rack up fraudulent purchases without raising red flags.

Often, the retailer is not aware of the unauthorized charges until the cardholder reverses the charges upon reviewing their statements. Then, the retailer must go through a lengthy review process to prove they did their due diligence in securing a signature and checking the customer's identity. Merchants lose an estimated 60 percent of all chargeback disputes. They are then responsible for all fees associated with the review and lose the revenue from the lost product or service.[v]

According to the National Retail Federation's 10th annual Organized Crime Survey, this rise in retail theft has cost U.S. businesses significantly. Over 88 percent of retailers surveyed reported being targeted by retail crime. Three quarters of those retailers are allocating significant funds to add staff, technology, and budget resources in an effort to prevent theft.[vi]

Figure 1 Distribution of unauthorized transactions (third party fraud) in 2012, as reported by the 2013 Federal Reserve Payments Study.
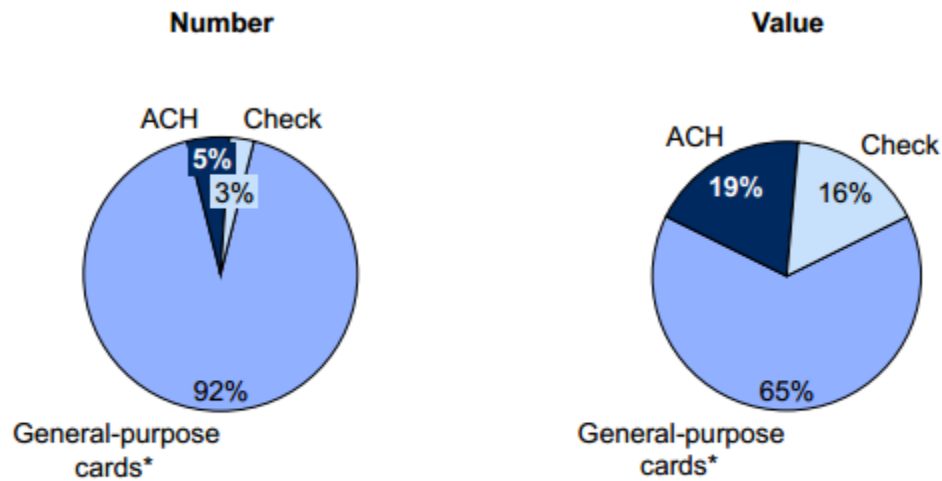
Figures may not add due to rounding.

*General-purpose cards include credit, debit, and prepaid purchases as well as ATM withdrawals.

Problem

As shown above, cards (be it debit, credit, prepaid, or ATM) account for the majority of unauthorized transactions.[vii] Credit theft and retail crime are likely to continue as the return on investment is high. Retailers are faced with a number of difficult problems:

1. They need secure systems in place that continue to allow card transactions while protecting their customers.
2. They need to have the means of identifying credit theft at the time it occurs.
3. They need to have resources available to report and prevent credit theft.
4. They need to be able to prove due diligence and avoid chargebacks.

Case Study - Sunshine Ace Hardware Stores in Naples, Florida

First Data North America worked with a chain of hardware stores in Florida to upgrade their antiquated card processing systems in April 2014. Part of this upgrade involved installing ClientLine®, a web-based transaction processing and reporting tool. Less than two weeks later, retail criminals targeted their stores.
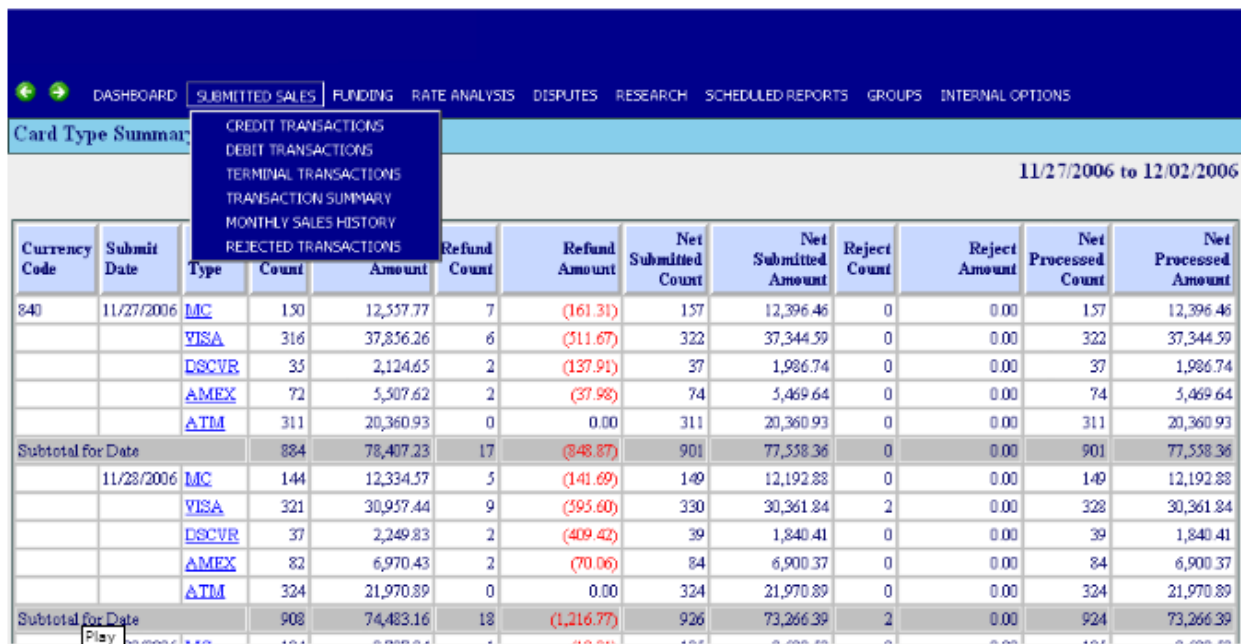
> *According to the NRF ORC Study, American businesses are spending $30 million dollars in combating retail crime.[vi]*

The criminals involved had hundreds of counterfeit credit cards and matching driver's licenses. They first targeted the Golden Gate store and moved on to the downtown Naples store late in the afternoon. It was at this location that the criminals made a critical mistake.

They attempted to use up all the available credit on one card. It was declined. They tried another. It was also declined. The third card went through, but at this point the employee at the register was suspicious and called over her manager. The customer left the store and the manager followed him out to the parking lot, taking a picture of the customer's car and license plate.

Lisa Daley, the Accounts Receivable manager for the store, was then informed of the situation. She used ClientLine® to run a search on all of the card numbers the customer used. ClientLine® supplied her with specific contact information for the fraud departments of each card issuer. She was able to confirm with the card issuers that the charges were indeed fraudulent and the card issuers immediately canceled the cards.

Figure 2 Screen shot of ClientLine® Demo at
https://www.myclientline.net/publicS/clrp/training/demo/a001_objectives_mod1_6.html

Then she ran a report to determine if the cards had been used at any of their other six locations. At this point she discovered that the cards had also been used at Golden Gate. An email was sent to the other four stores, with security footage and a list of the card numbers involved. In addition, the Lee and Collier county

authorities were notified. All this occurred within hours of the Naples store being hit.

Unfortunately, the emails were sent after 6pm and two additional stores were targeted first thing in the morning by this criminal ring. Within the span of two days, $14,000 worth of merchandise was purchased using counterfeit credit cards.

About a week later, the authorities were able to track down the criminals at a local gas station. Approximately twenty-five individuals were arrested in connection with the theft. Sunshine Ace Hardware was not the only business targeted in the area, but their swift identification and actions assisted the police in their investigation.

Conclusion

Upon review of this case, we see the need for continually updating payment processing and tracking systems. Sunshine Ace upgraded from Global to First Data for their debit and credit card processing primarily to increase processing speed. However, in the upgrade they gained ease in transaction search and valuable fraud information that was not previously available.

This information enabled them to confirm the fraud immediately and stop further theft. Most importantly, it helped document that Sunshine Ace did their due diligence in the situation. **Due to their fast response, this retailer has not had a single penny of that $14,000 charged back to them**.

Glenn Semel is the president of First Data North America and is responsible for bringing the advantages of First Data and ClientLine to Sunshine Ace. For additional information about how First Data combats credit fraud and theft, visit http://www.firstdirectnorthamerica.com or email Sales@FDIS-NAmerica.com.

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[i] "The 2013 Federal Reserve Payments Study indicates payments are increasingly card-based" Fedfocus, January 2014, http://www.frbservices.org/fedfocus/archive_perspective/perspective_0114_01.html.

[ii] "Credit card statistics, industry facts, debt statistics" Creditcards.com, updated Aug. 8, 2014, http://www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276.php.

[iii] David, Javier and Izzy Best. "Target: Stolen information involved at least 70 million people", CNBC.com, Jan. 10, 2014, http://www.cnbc.com/id/101323479.

[iv] Custer, Neal. "Safer credit cards are coming, but fraud will endure", Idaho Statesman, Aug. 20, 2014, http://www.idahostatesman.com/2014/08/20/3331017_safer-credit-cards-are-coming.html?rh=1.

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[vi] Minnick, Fred. "The $30 Billion Problem", National Retail Federation, June 2, 2014, https://nrf.com/news/the-30-billion-problem.

[vii] "The 2013 Federal Reserve Payments Study", Federal Reserve, December 19, 2013, http://www.frbservices.org/files/communications/pdf/research/2013_payments_study_summary.pdf.