

RETAIL

Fraud in the Age of Coronavirus

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By **Angela Whiteford**

The COVID-19 coronavirus pandemic has created anomalous buying conditions across the globe.

The type and volume of purchases has changed and spiked in certain industries, while the demographic of those making online purchases has shifted, too.

Physical store closures have understandably proven to be a catalyst for steep inclines in ecommerce activity.

Apparel and accessories saw a rapid impact, with a 106 percent increase in purchase volume in April.

Although they got off to a slower start, jewelry and high-end luxury products also saw a steady and consistent increase in consumer transaction volume (17 percent) between late March and early May.

Legitimate consumer-buying behaviors are changing

Along with growing volumes, legitimate consumers are now purchasing and engaging with their favorite brands differently.

Existing customers are shifting the types and frequency of purchases they make. Loungewear, for instance, has become a popular purchase even among those who typically spend on other items.

Shoppers are more often selecting expedited and premier shipping options.

New user account creation is also a more common occurrence. Retailers are seeing an average of 20 percent to 25 percent more new users than normal, bringing previously unknown customers to their sites.

Through these changes, businesses catering to high-end shoppers need to find ways to continue to deliver the premium experience their customers have come to expect.

Retailers are offering more targeted promotions and loyalty programs to inspire purchases and reward their most devoted customers. They are also easing returns policies to adjust for lockdowns and accommodate health-conscious shoppers.

The goal is to promote a positive brand experience so customers are more likely to return to stores as they reopen and engage in a true, long-term omnichannel experience.

New climate means new avenues of fraud and abuse

Unfortunately, these changes have also opened the door to fraudsters, who are looking for new vulnerabilities and

methods of attack:

Loyalty fraud: Loyalty fraud was on the rise even before the pandemic expanded in the United States, growing by 115 percent in the second half of 2019.

While bank statements are often closely watched, it is rare for either customers or merchants to monitor points accrued in loyalty accounts. This lack of attention makes points a true digital currency an appealing target for opportunistic fraudsters.

Retailers offering more reliable loyalty programs during the pandemic raises the stakes for this type of fraud.

Shipping fraud: The rise in delivery during shutdowns has created a good excuse for fraudsters to take advantage of data that may not match that expected for an order.

It is now common for shoppers to be at different shipping addresses or request for items to "please be left outside." These gaps leave room for fraudsters to exploit the system.

Returns abuse: Most retailers are amending their returns policies to better accommodate for physical store closures and allow customers more convenience during these unusual times.

These eased restrictions, however, provide new opportunities for abuse and fraud as extended policies make it more difficult for merchants to track items.

In general, fraudsters are also abusing the fact that employees at many companies are currently working from home. Merchant employees may be less aware of these new types of fraud attempts and less able to collaborate with others to stop them.

It is perhaps more critical than ever before that retailers find ways to combat these new fraud and abuse methods to stem unnecessary revenue loss.

However, fraud prevention should not come at the sacrifice of the experience that luxury customers expect.

Balancing trick

There are several steps apparel, accessories, and luxury retailers should take to achieve this balance:

1. Clearly communicate with customers about any shipping, logistical issues, or possible delays to their orders to maintain customer satisfaction.
2. Track customer complaints and cancellations and see them through to completion to avoid exploitable gaps between customer service, fulfillment, returns and other business functions
3. Clearly define your risk appetite and particular thresholds for your business policies so that your internal teams are able to understand what constitutes returns abuse and promotions abuse.
4. Partner with a fraud prevention provider that offers a combination of machine learning powered by a robust network of data and human expertise to ensure a proactive and more accurate approach to fraud and abuse prevention. .
5. Automate your fraud processes and solutions to ensure more confident business growth even amid spikes in consumer buying behaviors and higher overall transaction volumes.
6. Work with a global merchant network where possible to ensure you can identify legitimate buyers, even when they have not transacted with you before.

WHILE THE coronavirus pandemic has forced many retailers towards digital transformation, it has also created an opportunity for retailers to emerge from it stronger than ever before.

Understanding and addressing the evolving fraud landscape can help build that resilience and protect revenues both in the near- and long-term.

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