

MODULE 4
FRAUDS IN IT & TELECOM SECTOR

INTRODUCTION

With the development of the Internet in the 1990s and subsequent evolution of electronic commerce (e-commerce) have given rise to a dynamic business environment where transactions take place without face to face interaction. The International Telecommunication Union reported that internet is quickly becoming the first stop for people for making decision about buying services and products over internet and that the number of internet users has reached 2.3 billion in 2011. The increase in the volume of transactions has given rise to numerous electronic payment (e-payments) systems. Recent studies (Manning 1998, Wortington 2000) agree that electronic payment transactions have been in use for quite some years, like automatic teller machines (ATM), credit and debit cards, direct deposit and direct payment. Innopay Online payment report (2011) found that there is massive growth in the market for digital goods and this has given rise to numerous payment systems making the process of payment over the Internet easier for consumers. E-payment ensures smooth, secure and efficient transactions in e-business.

However, the development of e-payment methods have expanded and with it the fakery has inevitably kept pace. As a result, the consumers face a number of risks to personal information and have second thoughts of giving their credit account information over internet (Centeno

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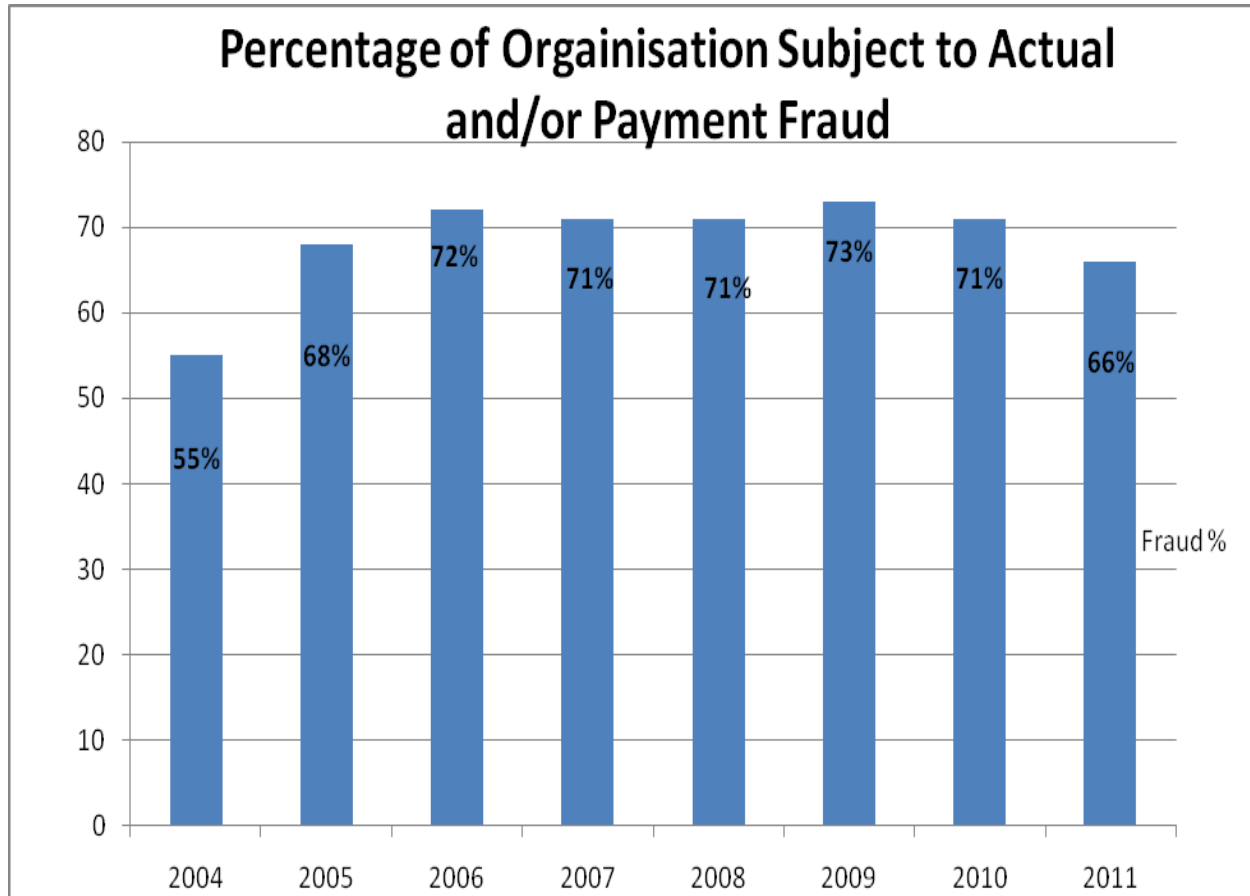
(2002). A recent study found that more than 7 million consumer complaints have been received during the period from 2007 to 2011 and a total of 990,242 of these complaints were related to frauds. The Consumer Sentinel Network (2012) (CSN). Consumers have reported paying over \$1.5 billion in those fraud complaints. According to CyberSource (2012) found that merchants have reported losing an average of 1.0% of the total online revenue to fraud. It is also reported that the fraud rate of international order is 2% more than domestic orders. For the merchants managing e-frauds remain to be major and growing cost.

Fraud in e-payment transaction is a global problem. We find fraudsters maneuver in all countries and industries. The purpose of this research is to study frauds in e-payments transactions, in order to point out some prospective threats and countermeasure required to reduce frauds. This paper discusses e-fraud (electronic fraud) and the different types of frauds in e-payment transactions. It further addresses various possible measures for prevention and detection of frauds in order to minimize frauds and make internet a safer, sound and trusted environment to consumers and merchants.

OVERVIEW OF E-PAYMENT FRAUDS

Graycar & Smith (2002) has defined fraud as a “act or instance of deception, an artifice by which the right or interest of another is injured, a dishonest trick or stratagem.” Bergmen (2005) define E-Fraud as “ a deception deliberately practiced to secure unfair or unlawful gain where some part of the communication between the victim and the fraudster is via a computer network and/or some action of the victim and/or the fraudster is performed on the computer network .” The USA Department of Justice (DOJ) defines e-fraud as “ a fraud scheme that uses one or more components of the Internet – such as chat rooms, e-mails, message boards, or web sites – to present fraudulent solicitations to prospective victims, to conduct fraudulent transactions, or to transmit the proceeds of fraud to financial institution or to other connected with the scheme”

With more and more people using internet in recent times e-fraud is becoming common because internet allows fraudsters appears anonymous. Internet has been a suitable method for committing fraud because the Internet allows hiding real identification of people who deal with it and thus the fraudsters remain anonymous. As internet increases business opportunities the criminal develop more sophisticated and effective ways to scam online. Commission of European Committee (2008) report summarized the fraud problem by saying “Fraud against means of payment (payment fraud) remains a threat to the success of the internal market for payments. Payment fraud affects the consumer confidence in non-cash means of payment and ultimately the real economy.”



Source: AFP survey (2012)

Organizations find that the frauds in the e-payment transaction are increasing year after year. Association for Financial Professionals AFP (2012) has reported percentage of organizations subject to attempted and/or actual payments fraud has shown an increase from 2004 to 2009, while from 2010 and 2011 showed a decline in attempted and actual payment fraud. The report also showed that it the larger organization are targets of payment frauds than smaller ones. 81% of the organizations with annual revenue over \$1 billion were victims of payments fraud in 2011 compared to 55% organization with less than \$1 billion revenue. It is also observed in 2011 that it is the larger organizations that have experienced decrease in fraud while the smaller organizations continue to experience increase in the fraud activity.