Chargeback Insurance

A Risk Management Perspective

Manoj Kumar, Chartered Insurer

ACII (UK), CPCU (USA), ARe (USA), ARM (USA), FIII (India). MBA

Email: manoj@einsuranceprofessional.com

Is it really Dangerous?

Year 2001

Actual Credit Card Fraud in 2001

- Online losses: $700 Million
- Total online sales: $68.1 billion
- 1.14% of total online sales
- POS losses: 0.09%
- Online losses 19 times higher than offline losses
  - Source GartnerG2

Cost of Internet fraud with and without technical investment

Year	With investment	Without investment
2000	$1.6 billion	$1.6 billion
2005	**$5.7 billion**	$15.5 billion

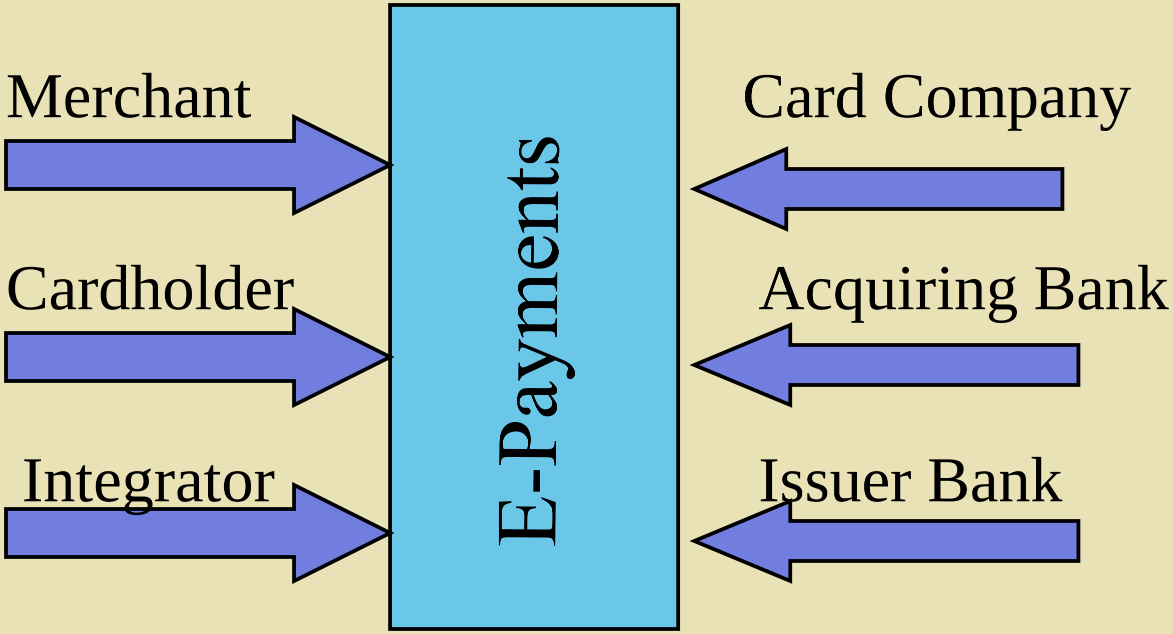
Where do we go?

Source: Meridien Research

Objective

- Online risks analysis
- Risk profiling of online risks
- Risk management of online risks
- Chargeback insurance
- Other e-commerce risks

Components of e-Payment



Merchant

Cardholder

Integrator

E-Payments

Card Company

Acquiring Bank

Issuer Bank

Online Risks Checklist

- Hacking – definition, example
- Viruses
- Electronic Fraud
- Theft of Intellectual Property – St. Petersberg
- Credit card fraud
- Legal Liability – newspapers, SMS
- Professional Liability
- Claims made by employees
- Threats or Extortion

E-Risk Losses

- Damage to systems including hardware, software, programmes and records
- Loss of data and intellectual property
- Loss of business / Business Interruption
- Legal expenses and compensation due to cases from Clients (Target – banks, exchange houses, IT consultants, S/W developers, website owners, etc.)
- Chargebacks
- Loss of reputation & market share
- Extortion money

Risk Management options for e-Merchants

- Risk Avoidance
- Loss Prevention
  - Legal advice
  - I.T. security advice
  - Training
  - UCAF – SPA, VBV
- Loss reduction
  - Legal Action
  - Recovery
- Risk Transfer
  - Insurance Protection

Chargeback

- Chargeback means the debit process of a Service Bank as a result of a Card being used fraudulently and the Consumer repudiating the *CNP Purchase* .
- A Charge back must be only those transactions which an Issuer may legally Charge back to the acquirer, who in turn may return to the Merchant under the terms of the *Merchant Agreement*.

CNP Purchase

CNP Purchase means a Card Purchase of a product or service via *Payment System* where neither the consumer nor anyone purporting to be consumer is present at your office at the time of the transaction. This simply means *‘Cardholder Not Present’*.

Payment System

Payment System means an electronic fund transfer facility for the online card transactions, which is provided by the *"Integrator"* enabling a CNP Purchase between the merchant and the Service Bank via the Integrator.

Case Study

This is an actual case from the UK, but names have not been included.

- A photographic dealer set up a direct order facility via his website.
- A number of thieves used stolen cards, or details, to buy £100,000 worth of goods online.
- The orders were taken in good faith and the goods delivered.
- The legitimate card owners questioned their statements with the credit card company
- The credit card company investigated and uncovered the fraudulent use of the card.
- £100,000 worth of 'chargeback' was made against the photographic dealer by the bank.
- In order to recoup this money, which is completely lost, he had to sell a further £1,000,000 worth of goods.
- Ultimately, as a result, the company risked closing down.

Coverage

- This insurance will pay for the claims arising out of the Merchant’s liability to the Service Bank for a CNP Purchase in circumstances where the use of the consumer's Card was unauthorized and made fraudulently.
- A CNP Purchase will be deemed to have been transacted when notice of CNP Purchase is approved by the Payment System and recorded by the Merchant.

Eligibility

This insurance is available to all businesses that use a processing system acceptable to the insurers, where a CNP situation arises.

- Processing systems
- Cards used
- Products / services sold

Requirements

- Past record of the merchant
- Online trading history
- Completed proposal form
- Product details & brochure
- Wait period in some cases
- Fraud prevention measures

Which Cards?

- All valid Credit Cards
- All valid Debit Cards

bearing MasterCard, Visa Card or Switch symbols, but excludes American Express Card.

Excluded Countries?

If the Delivery Address is located in or the Card is Issued in the following countries, the transactions are not covered: Afghanistan, Albania, Algeria, Angola, Armenia, Azerbaijan, Belarus, Bosnia & Herzegovina, Burundi, Cambodia, China, Colombia, Cuba, East Timor, Ecuador, Eritrea, Ethiopia, Fiji, Georgia, Guinea Bissau, Guyana, Haiti, Indonesia, Iran, Iraq, Kazakhstan, Kenya, North Korea, Kyrgyz Stan, Lao Peoples, Latvia, Liberia, Libyan Arab Jamahiriya, Macedonia, Malawi, Moldova, Mongolia, Mozambique, Myanmar, Nigeria, Pakistan, Papua New Guinea, Romania, Russian Federation, Rwanda, Sierra Leone, Slovakia, Slovenia, Somalia, Sudan, Suriname, Syrian Arab Republic, Tajikistan, Turkmenistan, Uganda, Ukraine, Uzbekistan, Vietnam, Yemen, Yugoslavia, Zaire or Zimbabwe.

Limits of Insurance

- An Annual Aggregate limit
- Per CNP transaction limit
- Capped to a maximum amount per month

Excess / Deductible

Three ways:

- Per transaction
- Aggregate deductible
- Combination of both
- Shown as % of CNP transactions

Underwriting Factors

- Total turnover of the company
- Total CNP sales and relation to total turnover
- Number of CNP transactions
- Average size of CNP transaction
- Maximum size of individual CNP transaction
- Fraud prevention measures in place

Rating / Premium

This is expressed as a percentage of CNP transactions (subject to a minimum and deposit premium) and is also adjusted at the end of the policy period.

Other Online Risks

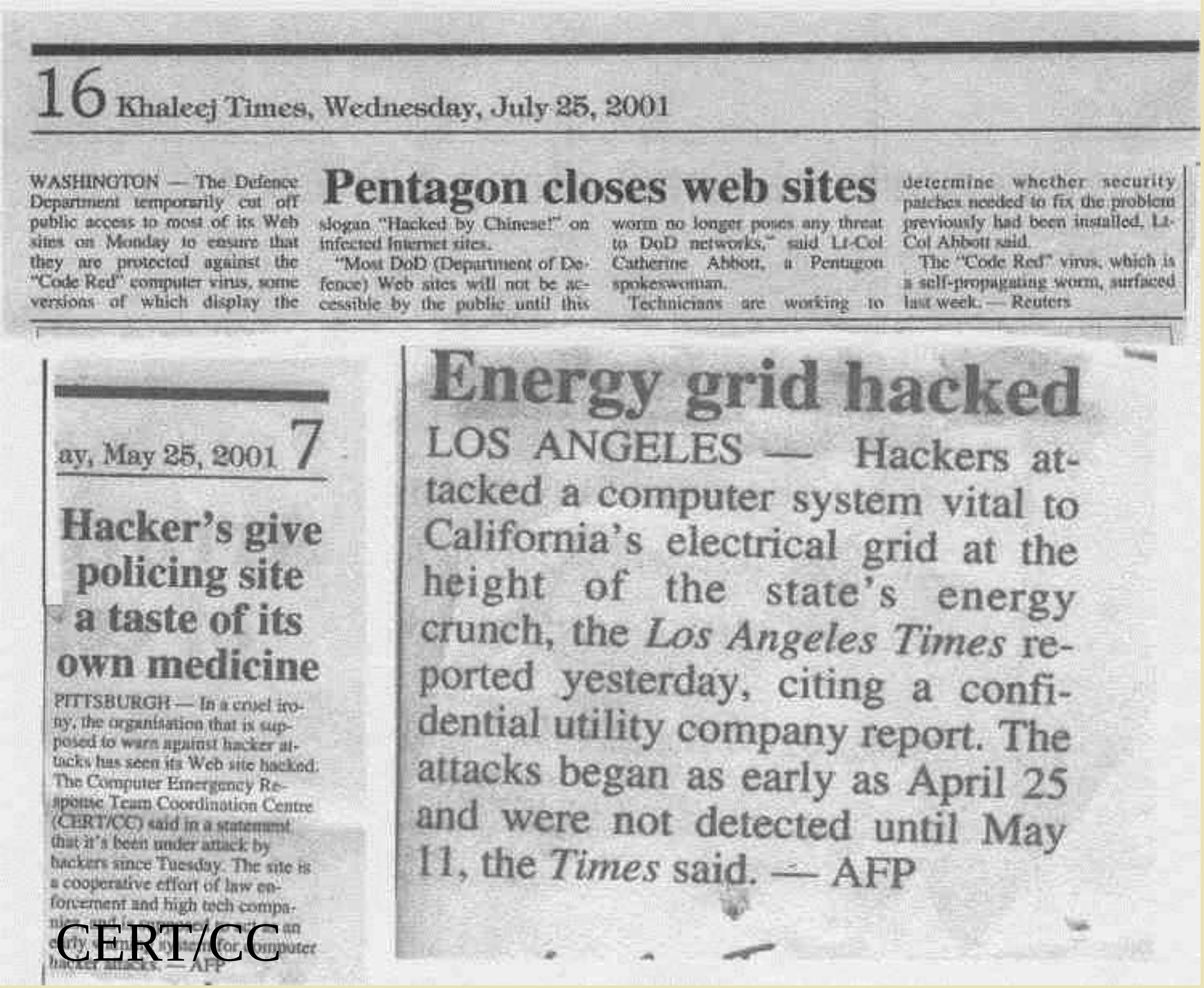
Other Online Risks by Group

- **Software Developers** – Professional Liability
- **IT Consultants** – Professional Liability
- **Payment Gateway Providers** – Legal / Professional Liability
- **Internet Service Providers** – First party as well as Third party risks
- **Banks** – Third party losses, Legal Liability
- **Business Houses** – Loss of data, loss of system, loss of business
- **Website owners** – Legal liability, loss os business
- **Newspapers** – Loss of business, legal liability

Solutions

- Risk Financing or Self Insurance
- Insurance
  - First Party Insurance
    - Damage to systems
    - Business Interruption
    - Electronic Fraud
    - Extortion
  - Third Party Insurance
    - Legal Liability
    - Professional Liability
  - Chargeback Insurance

Some Famous Cases



16 Khaleej Times, Wednesday, July 25, 2001

Pentagon closes web sites

WASHINGTON — The Defence Department temporarily cut off public access to most of its Web sites on Monday to ensure that they are protected against the "Code Red" computer virus, some versions of which display the slogan "Hacked by Chinese!" on infected Internet sites.

"Most DoD (Department of Defence) Web sites will not be accessible by the public until this worm no longer poses any threat to DoD networks," said Lt-Col Catherine Abbott, a Pentagon spokeswoman.

Technicians are working to determine whether security patches needed to fix the problem previously had been installed, Lt-Col Abbott said.

The "Code Red" virus, which is a self-propagating worm, surfaced last week. — Reuters

ay, May 25, 2001 7

Hacker's give policing site a taste of its own medicine

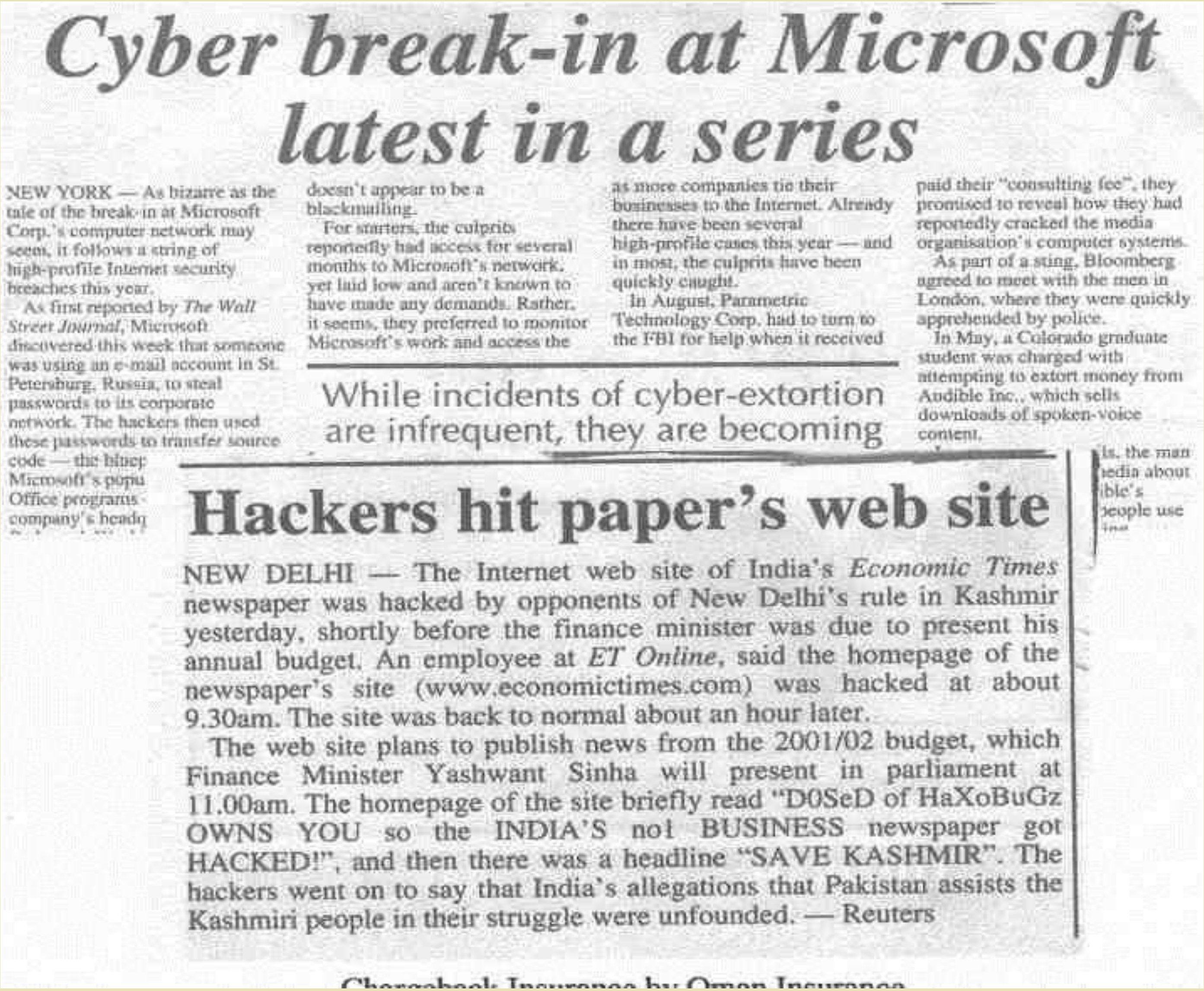
PITTSBURGH — In a cruel irony, the organisation that is supposed to warn against hacker attacks has seen its Web site hacked. The Computer Emergency Response Team Coordination Centre (CERT/CC) said in a statement that it's been under attack by hackers since Tuesday. The site is a cooperative effort of law enforcement and high tech companies, and is supposed to act as an early warning system for computer hacker attacks. — AFP

Energy grid hacked

LOS ANGELES — Hackers attacked a computer system vital to California's electrical grid at the height of the state's energy crunch, the *Los Angeles Times* reported yesterday, citing a confidential utility company report. The attacks began as early as April 25 and were not detected until May 11, the *Times* said. — AFP

CERT/CC

Manoj Kumar (manoj@tameen.co.ae)



Cyber break-in at Microsoft latest in a series

NEW YORK — As bizarre as the tale of the break-in at Microsoft Corp.'s computer network may seem, it follows a string of high-profile Internet security breaches this year.

As first reported by *The Wall Street Journal*, Microsoft discovered this week that someone was using an e-mail account in St. Petersburg, Russia, to steal passwords to its corporate network. The hackers then used these passwords to transfer source code — the bluep

Microsoft's popu

Office programs

company's headq

doesn't appear to be a blackmailing.

For starters, the culprits reportedly had access for several months to Microsoft's network, yet laid low and aren't known to have made any demands. Rather, it seems, they preferred to monitor Microsoft's work and access the

While incidents of cyber-extortion are infrequent, they are becoming

as more companies tie their businesses to the Internet. Already there have been several high-profile cases this year — and in most, the culprits have been quickly caught.

In August, Parametric Technology Corp. had to turn to the FBI for help when it received

paid their "consulting fee", they promised to reveal how they had reportedly cracked the media organisation's computer systems.

As part of a sting, Bloomberg agreed to meet with the men in London, where they were quickly apprehended by police.

In May, a Colorado graduate student was charged with attempting to extort money from Audible Inc., which sells downloads of spoken-voice content.

ls, the man

edia about

ible's

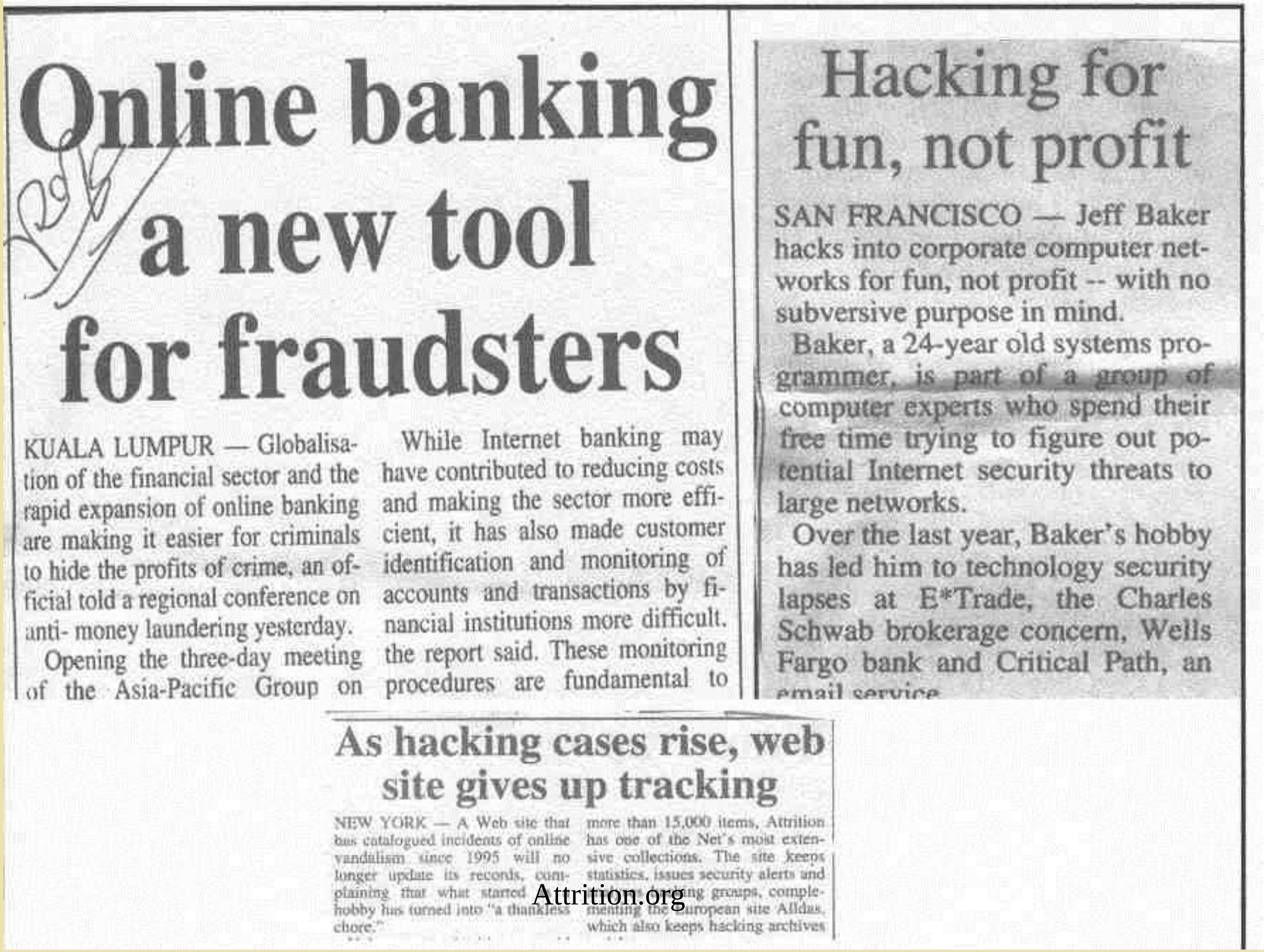
eople use

Hackers hit paper's web site

NEW DELHI — The Internet web site of India's *Economic Times* newspaper was hacked by opponents of New Delhi's rule in Kashmir yesterday, shortly before the finance minister was due to present his annual budget. An employee at *ET Online*, said the homepage of the newspaper's site (www.economictimes.com) was hacked at about 9.30am. The site was back to normal about an hour later.

The web site plans to publish news from the 2001/02 budget, which Finance Minister Yashwant Sinha will present in parliament at 11.00am. The homepage of the site briefly read "D0SeD of HaXoBuGz OWNS YOU so the INDIA'S no1 BUSINESS newspaper got HACKED!", and then there was a headline "SAVE KASHMIR". The hackers went on to say that India's allegations that Pakistan assists the Kashmiri people in their struggle were unfounded. — Reuters

Chargeback Insurance by Oman Insurance



Online banking a new tool for fraudsters

KUALA LUMPUR — Globalisation of the financial sector and the rapid expansion of online banking are making it easier for criminals to hide the profits of crime, an official told a regional conference on anti- money laundering yesterday.

Opening the three-day meeting of the Asia-Pacific Group on

While Internet banking may have contributed to reducing costs and making the sector more efficient, it has also made customer identification and monitoring of accounts and transactions by financial institutions more difficult, the report said. These monitoring procedures are fundamental to

Hacking for fun, not profit

SAN FRANCISCO — Jeff Baker hacks into corporate computer networks for fun, not profit -- with no subversive purpose in mind.

Baker, a 24-year old systems programmer, is part of a group of computer experts who spend their free time trying to figure out potential Internet security threats to large networks.

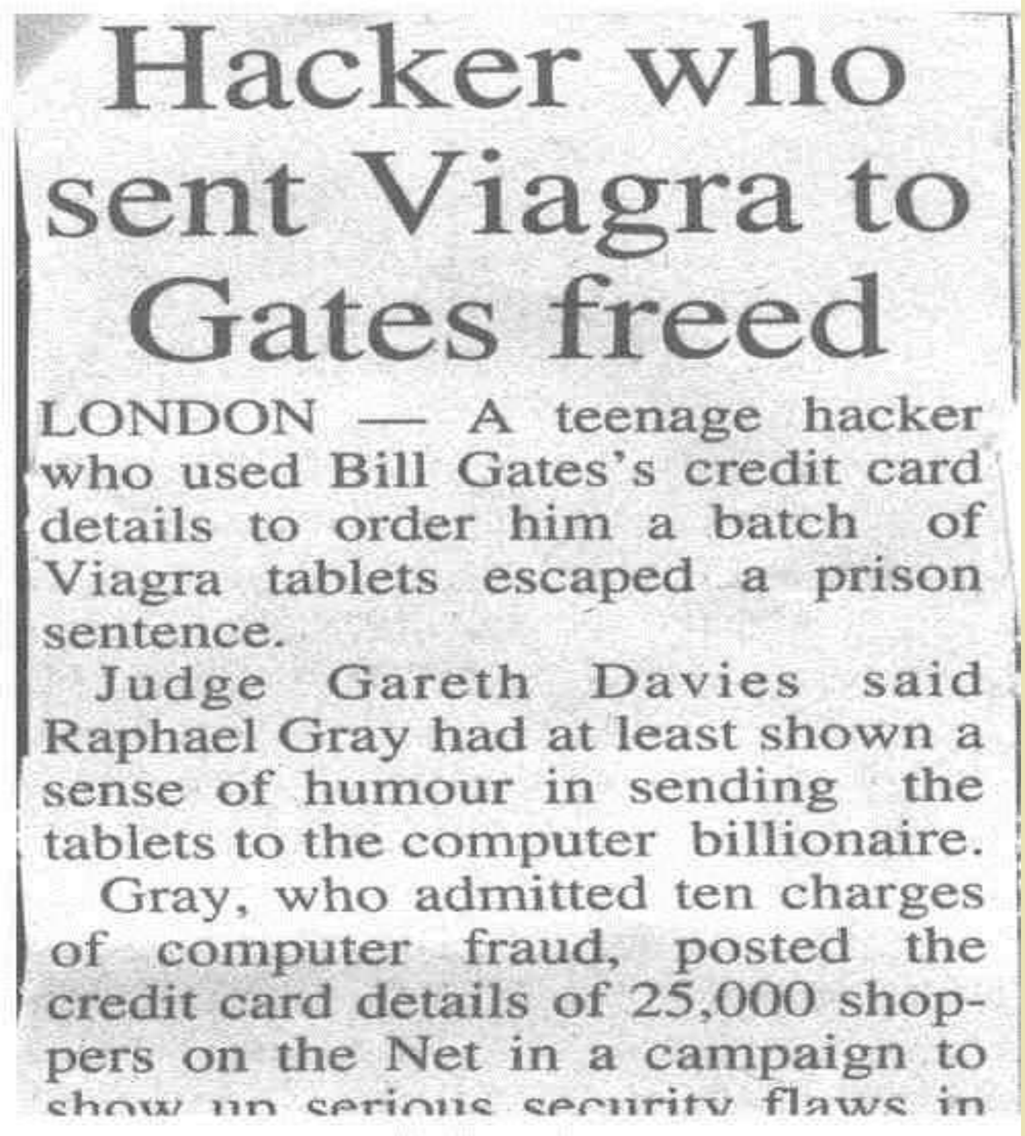
Over the last year, Baker's hobby has led him to technology security lapses at E*Trade, the Charles Schwab brokerage concern, Wells Fargo bank and Critical Path, an email service.

As hacking cases rise, web site gives up tracking

NEW YORK — A Web site that has catalogued incidents of online vandalism since 1995 will no longer update its records, complaining that what started [illegible] hobby has turned into "a thankless chore."

more than 15,000 items, Attrition has one of the Net's most extensive collections. The site keeps statistics, issues security alerts and [illegible] groups, complementing the European site Alldas, which also keeps hacking archives

Attrition.org



Hacker who sent Viagra to Gates freed

LONDON — A teenage hacker who used Bill Gates's credit card details to order him a batch of Viagra tablets escaped a prison sentence.

Judge Gareth Davies said Raphael Gray had at least shown a sense of humour in sending the tablets to the computer billionaire.

Gray, who admitted ten charges of computer fraud, posted the credit card details of 25,000 shoppers on the Net in a campaign to show up serious security flaws in

Lessons

- No system is impregnable.
- Don’t remain overconfident.
- Cyber crime is a hobby too!
- Use insurance as an umbrella in the rains of online crime & frauds.

Finally

Number of Online US and Worldwide Purchasers, 1998 - 2000

(Millions)	**1998**	**2000**	**2002**
US Purchasers	21.10	41.20	60.40
Global Purchasers	31.00	72.00	134.00

Source: Donaldson, Lufkin & Jenrette

Online Purchase Revenues 1999 - 2004 (in US dollars)

Year	B2C	Total Web Sales
1999	20 bn	80 bn
2000	45 bn	190 bn
2001	90 bn	330 bn
2002	180 bn	590 bn
2003	220 bn	900 bn
2004	300 bn	1400 bn

Source: Keenan Vision

E-Commerce Insurance

Thank You!

Protect Yourself from Internet Frauds!

Manoj Kumar (manoj@tameen.co.ae)