



## Ethoca is Bringing E-tailers Together to Fight Online Fraud

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[http://www.stores.org/LPinformation\\_new/2008/11/LPiEdit1.asp](http://www.stores.org/LPinformation_new/2008/11/LPiEdit1.asp)



An emerging company is preparing to use the power of community to fight e-commerce fraud in a manner similar to LERPnet's solution for bricks-and-mortar retailers.

While there have been several initiatives to fight the online fraud battle in the past, Ethoca president Keegan Johnson believes the solution is getting retailers to work together. Founded three years ago, Ethoca is building the first international online e-tailer community that will allow each member to share its history of payment experiences with other members.

"Since fraudsters work together, we thought businesses should, too, to fight back," Johnson says. Currently based in Dublin, Ireland, and Toronto, Canada, Ethoca began three years ago by signing e-tail customers of the Royal Bank of Scotland (RBS). RBS, which claims half of the credit cards issued in the U.K., is now one of four partners and 35 merchants committed to the enterprise.

By noting the solutions that did not work against e-commerce fraud, Ethoca developed a list of "musts" for its online community. First, there must be privacy of customer information. Security of data, ease of access for members, integrity of reporting, usability and an open platform are also vital. The final hurdle for a successful fraud reporting community, Johnson says, is achieving a critical mass of data.

As part of their membership, e-tailers will securely upload data concerning fraudulent transactions to Ethoca; the community will share the data. How exactly will the system

work? Ethoca “will check the experiences of all member companies, the history of all merchants,” Johnson says, and then “issue a retail risk assessment to the retailer.”

The risk assessment will include a score and a recommendation about how to handle the transaction. If there is an IP address linked to fraud, Ethoca will provide this information to retailers and will also note inconsistencies, such as a single shipping address tied to several different credit cards. “This is usually a good indicator of fraud,” Johnson says.

### **Data encryption**

Ethoca vows that customer data will be secure. “We are fully PCI compliant,” Johnson says. “We have also put security policies into place. For example, Ethoca encrypts all data, whether it is on our servers or in transmission. The RBS came in and went through all of our policies and procedures prior to becoming a partner.”

The solution should also cut down on the number of rejections a store issues. “This will keep fraud under certain levels and not turn away good customers,” Johnson says. “If you’re turning away 6 percent now, it could go down to 4 percent which goes to the bottom line.”

Ethoca will charge a monthly membership fee rather than transaction fees. “We don’t want retailers to only send us their riskiest transactions,” Johnson says. “We need all transaction information to get a good picture.” The fee could range from \$500 to \$25,000, with the selling point being that the system “will pay for itself because we will be adding money to merchants’ bottom lines.”

One recent development: former U.S. Homeland Security secretary Tom Ridge has joined Ethoca’s board. “He can give us strategic guidance, having been in an industry that fights fraud,” Johnson says.

Among Ethoca’s first U.S. members are Tigerdirect.com and CompUSA.com.