

Machines v. Fraudsters

The pros and cons of machine learning and rules.

Mythbusting

Making integration simple, painless, and successful.

Chargeback Automation

How one company took back time to focus on customers.

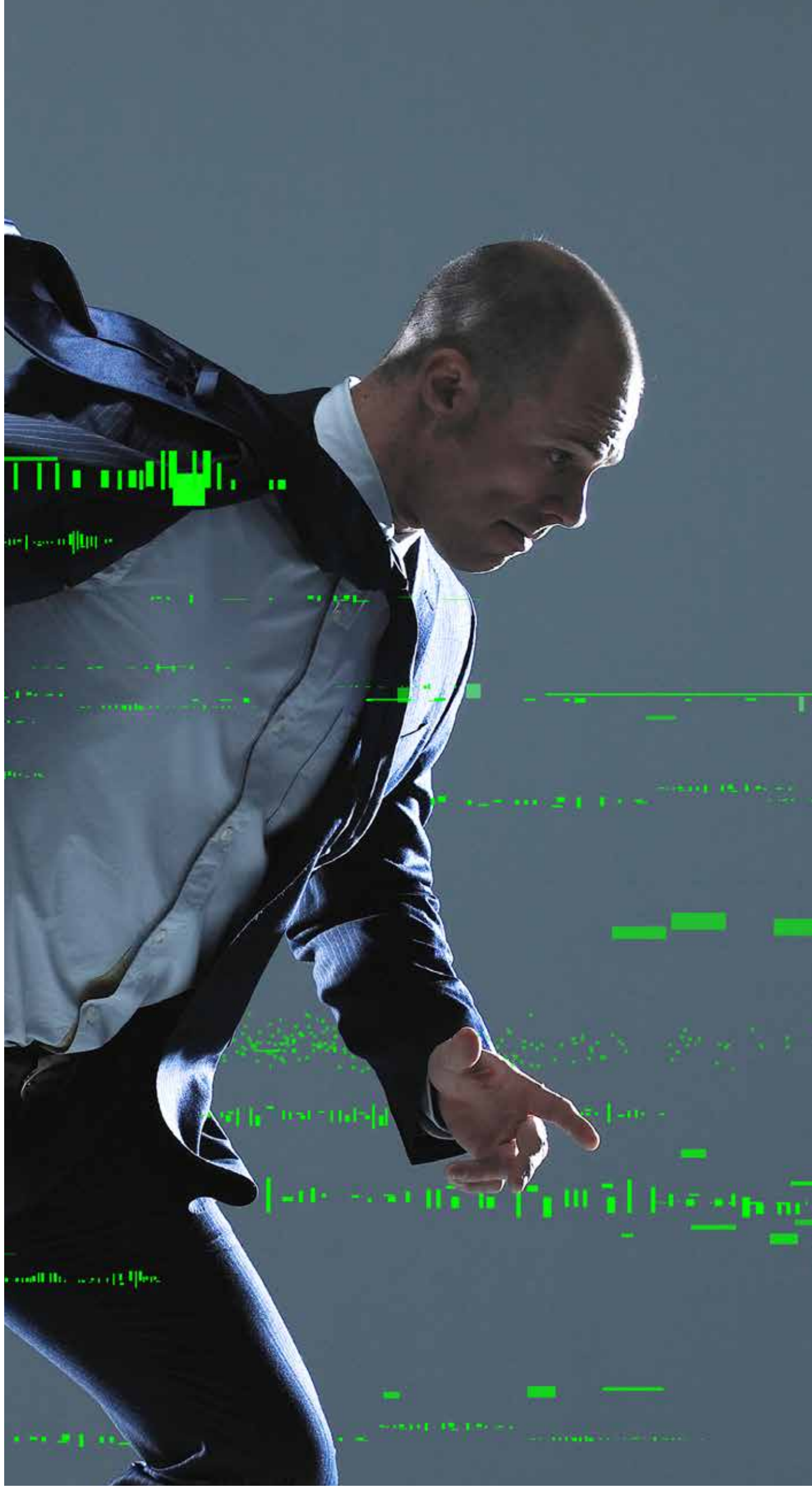
The Stack

Insights that add up to real change | Vol. 1, Issue 2

The Relentless Battle Against Financial Fraud

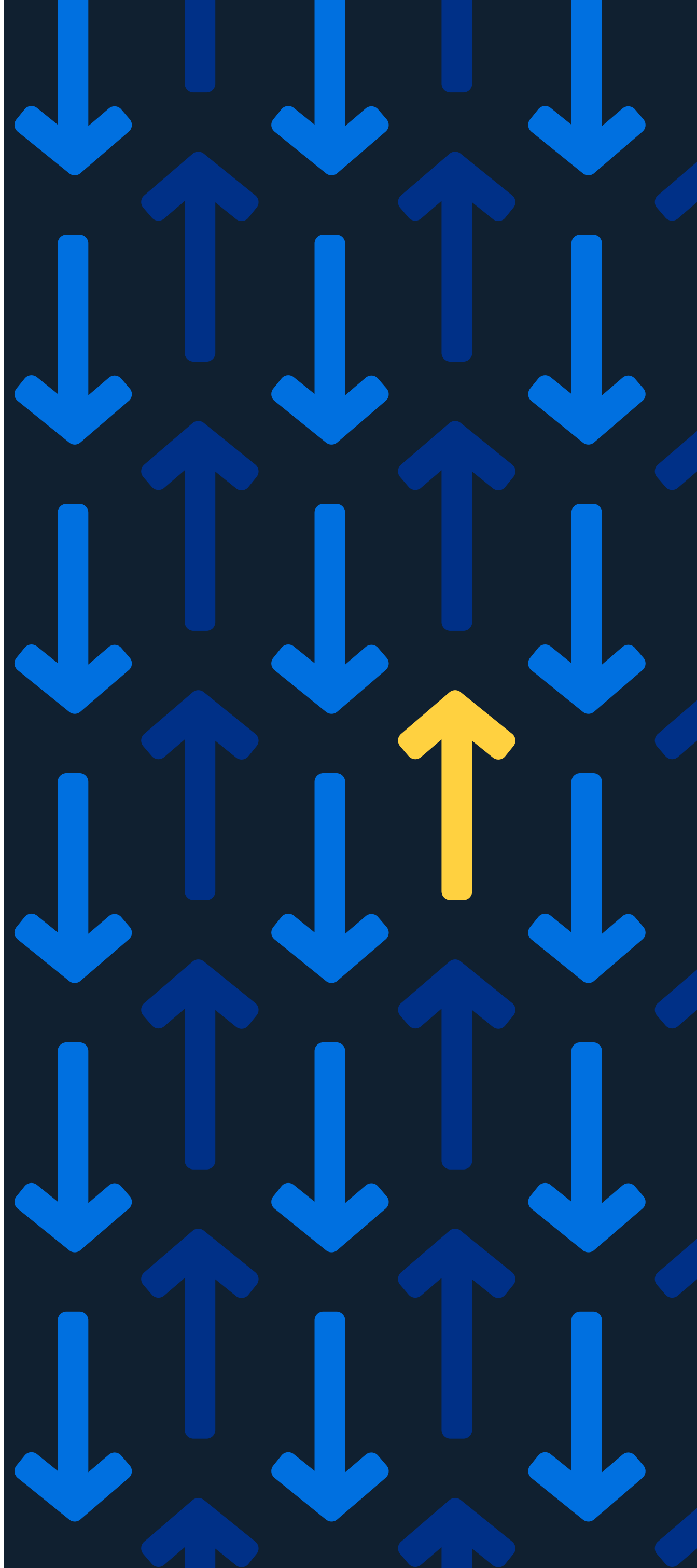
An exclusive publication by





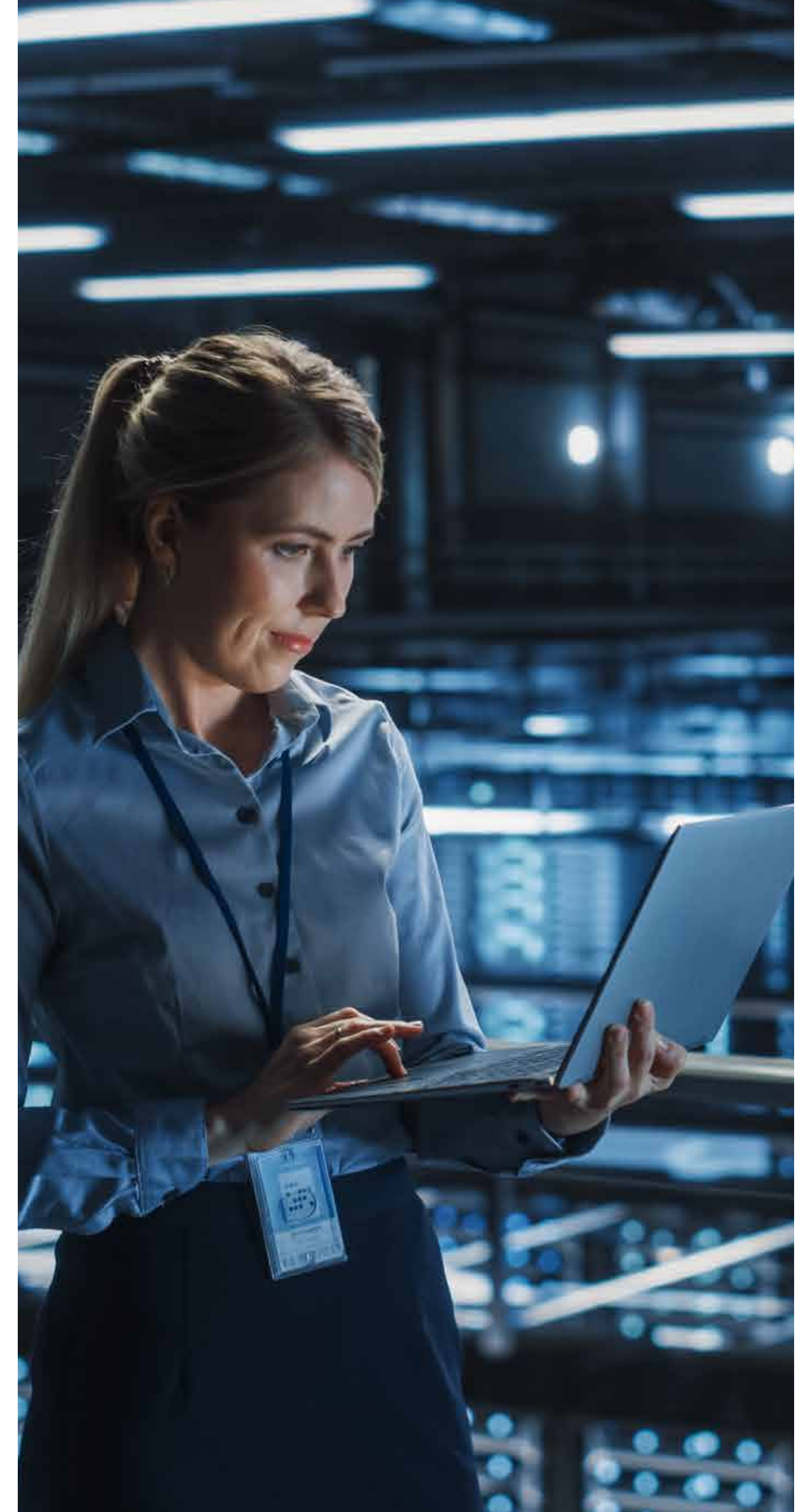
First Things First

This issue of **The Stack** focuses on minimizing the threat of fraud and providing the best experience for your customers.



StatShot

Taking chargeback risk head on.



CHECKLIST

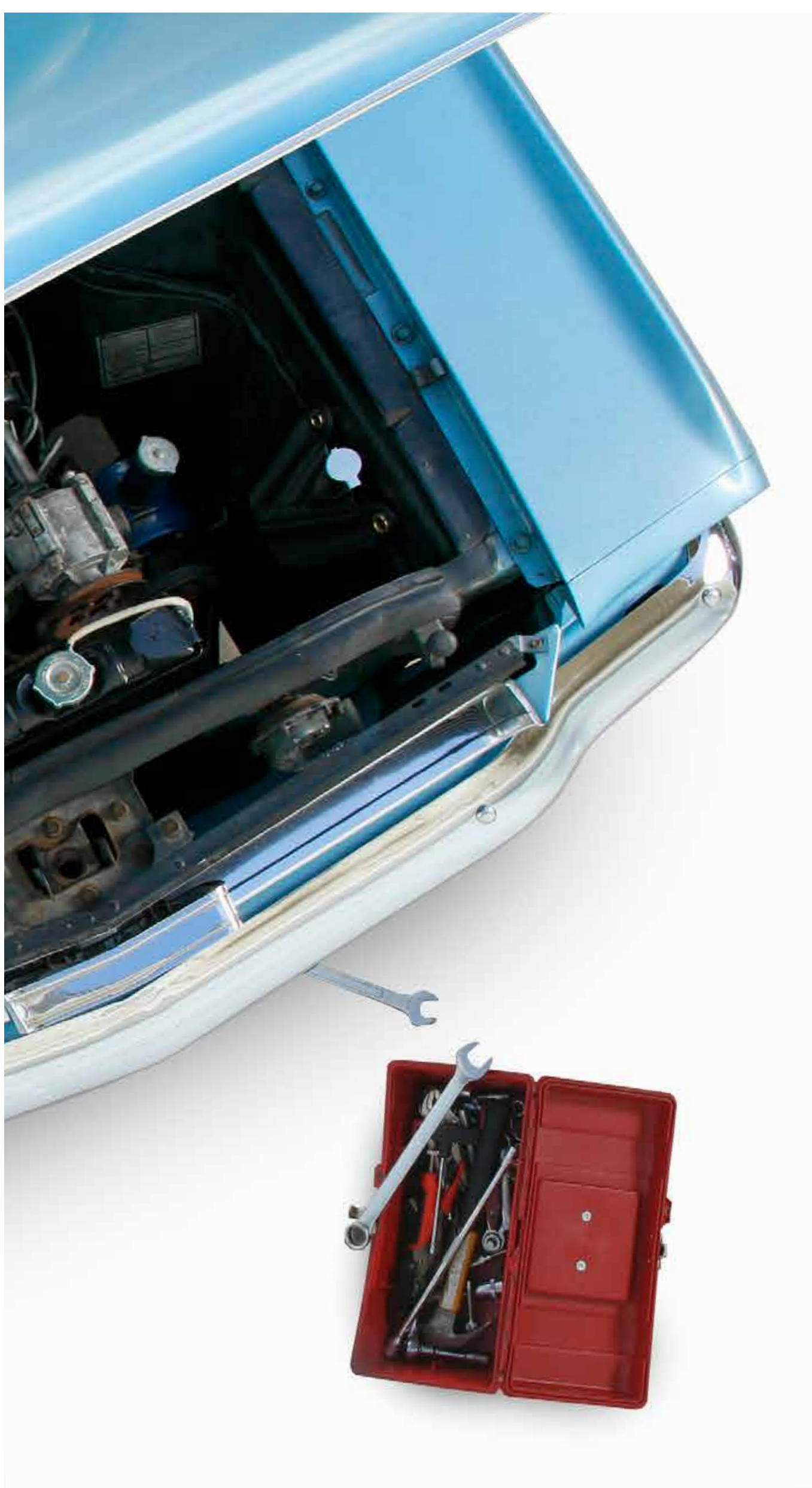
Focus on Your Business Instead of Fraud

We've got you covered.

CASE STUDY: PARTS GEEK

Drive a Higher Win Rate

Automating chargeback disputes empowered their employees to focus on what matters most.



Fraudsters Learn Fast – So Can You

The pros and cons of rules and machine learning.



Generation: Data

The numbers you need to keep up with your customers.



Simple Meets Secure: Welcome to Issue 2 of

The Stack

The right mitigation strategy can help grow your business and enhance the customer experience.

If the past is prologue, an economic downturn will expand the ranks of online fraudsters. Even if the global economy stays relatively stable over the next several months, online criminals will continue to innovate and devise new ways to steal.

Reducing risk for your business is critical in good times and bad. This issue of **The Stack** focuses on how the right payments platform can help you minimize the threat of financial cybercrime to your business and your customers.

As a fintech pioneer, we've been at the vanguard of helping businesses and customers make safe online transactions for more than 20 years. Our experience is bolstered by the power of a global two-sided network of more than 432+ million active accounts including 35+ million merchant accounts.

Being able to see both sides of so many transactions means we can detect trends and evolving fraud patterns to then create risk models that can help thwart fraud.

From a merchant's PayPal Braintree Vault, which securely stores customer information, to our processing optimization tools like network tokenization and intelligent retries, PayPal has the tools to help make secure transactions simple and speedy. It's our belief that no business should have to choose between mitigating risk and meeting customer expectations.

StatShot

Chargeback Risk. High chargeback rates can send payment costs soaring, which can be a problem for your business. Why? Because every chargeback impacts your overall chargeback ratio, which can determine your reputation and standing with credit networks. When it comes to chargebacks, the key is to proactively prevent them from happening in the first place in order to help you protect your business.

42%

of online fraud is chargeback fraud¹

Businesses that implement an automatic fraud management solution see a decrease in risk of

↓ 12%²






PayPal can deliver a

5↓

basis point reduction in chargeback rates³

We've Got You Covered: Focus on Your Business Instead of Fraud

Is your business leveraging fraud detection for more revenue and more efficient operations? The fraudsters are making lists of their next targets. Here's your checklist for fraud detection that helps mitigate risk:

- ☐  Consider out-of-the-box solutions to help spot suspicious transactions.
- ☐  Leverage manual review capabilities for in-house fraud teams.
- ☐  Implement dispute automation to address 100% of disputes and reduce losses.
- ☐  Use live risk analysis on direct credit card transactions to reduce losses and liability.
- ☐  Get real time recommendations with AI and machine learning-powered fraud detection.



Headed to Vegas for Merchant Risk Council in March?

Stop by and say Hello!

What: **Merchant Risk Council**
When: **March 6 - 9, 2023**
Where: **ARIA Resort & Casino Las Vegas, Nevada**

Our speaker session on March 7 will feature Head of Enterprise Platform Growth, Kevin Correll and Head of Global Customer Advocacy, Dr. Tiffany Raymond in conversation with Eric Liang, Co-founder and CIO at Spokeo. They'll share lessons learned and recommend best practices on how businesses can incorporate alternative payments into payment systems.

Not able to attend?
Check out our [events schedule](#)



Fraudsters Learn Fast – So Can You

With fraud on the rise, should you use rules or machine learning to protect your business?

Fraudsters are always at work and always adapting. They probe relentlessly for ways to steal from businesses and customers. The minute a new digital commerce channel opens, bad actors get busy on new schemes.

Fortunately, businesses have tools to fight back and mitigate risk. The two main methods of combatting fraud are rules-based tactics and machine learning. While rules are still prevalent and powerful, businesses are increasingly leveraging machine learning to detect fraud. In one survey, 83% of respondents said machine learning is pivotal to their company's e-commerce fraud strategy.⁴

Let's take a look at both and see how they can work in concert to detect fraud and help protect against losses.



Pros

The human element of rules can make it easy for analysts to spot errors and make a fast fix.

New rules can be made when analysts detect new fraud patterns emerging.

Machine learning takes time, and a lot of fraud can occur while machine learning is getting up to speed.

Cons

Rules can't be changed, which means new rules are needed to thwart fraudster innovation.

As rules are added, systems can grow complex and hard to maintain.

The need to manually monitor fraud trends and create new rules can create a corresponding demand for more people and resources.



Pros

Machine learning creates algorithms to process large datasets with multiple variables to find correlations indicating sophisticated fraud attempts.

Machine learning captures more fraudulent attempts with fewer false positives.

Machine learning offers protection in real time, detecting patterns as they develop and can be retrained with fresh data for greater precision.

Cons

Machine learning models can become "black boxes" producing results that are hard to understand and explain.

A lack of transparency makes future modeling more challenging.

Machine learning can take one to three months to absorb enough data to work effectively.

While machine learning models are getting up to speed, rules can keep an eye out for fraud. Because rules are based on particular trends, administrators can write them as needed while machine learning is trained to see the same patterns. With both tools in their arsenal, businesses can enjoy the immediacy of rules and the sophistication of machine learning.

Integration May Be Easier Than You Think

Debunking the three biggest myths about upgrading your payments processing system.

1

Myth: Integrating a new payment processing system is always painful.

Fact: We are with you every step of the journey. [Making the Switch](#) with our white-glove service means we design and build your platform to help meet your needs. Attention to detail from the beginning spares your teams from manual reworks and takes a bite out of technical debt.

2

Myth: Integration is a long and linear process that gets in the way of business.

Fact: No two businesses are the same and no two integrations are the same. Account managers help ensure the integration is moving at the right pace for your needs. We have the resources to assist with fast timelines and our modular approach allows you to iterate and optimize as the integration unfolds.

3

Myth: My teams across the business will need a lot of training.

Fact: The customer success manager is there to make sure your developers, your finance teams, and your marketers have everything they might need to succeed. From our code to our training videos, we've designed the integration process to be intuitive and simple so everyone in the business can stay focused on results.

Let's Meet the Integration Team

There's no such thing as a one-size-fits-all solution when designing and integrating a streamlined payments stack. Our knowledgeable and experienced people are here to understand exactly what your business needs and how to get it up and running seamlessly and efficiently.



"Our goal is to understand your needs. We'll answer all of your questions and help you quickly move forward in the way that makes the most sense for your business."

– Drew Dickelman
Enterprise Business Development/Partnerships



"We're your trusted advisor throughout not only the integration process, but your entire time as a PayPal customer. We make sure your payments setup is optimized and you have the support you need to grow."

– Andres Lara
Enterprise Account Executive



"Think of us as your personalized technical support. We're here to help with designing, testing, and troubleshooting to ensure your integration runs as smoothly as possible."

– Jake Skaggs
Senior Integration Engineer

1 Consultation

2 Solution Design

3 Integration

4 Certification

5 Launch

Review

Drive a Higher Win Rate

How Parts Geek automated chargeback disputes and freed employees to focus on what matters most.

Parts Geek is one of the largest suppliers of replacement auto parts, auto accessories, and automotive crash parts online. Established in 2008, Parts Geek is known for its high-quality service and has been offering online visitors an extensive catalogue of auto parts for all domestic and imported cars, trucks, and SUVs.

Over the years, Parts Geek had earned a reputation for high-quality service, but the company's manual dispute representment process could not scale to match the growth of online orders. Too much time was spent managing disputes and not enough time was spent on improving its core business.

With high average order values (AOV) spanning three different payment portals, Parts Geek needed a technology solution that would centralize its dispute management, improve

chargeback performance, and free employees to focus on customer service.

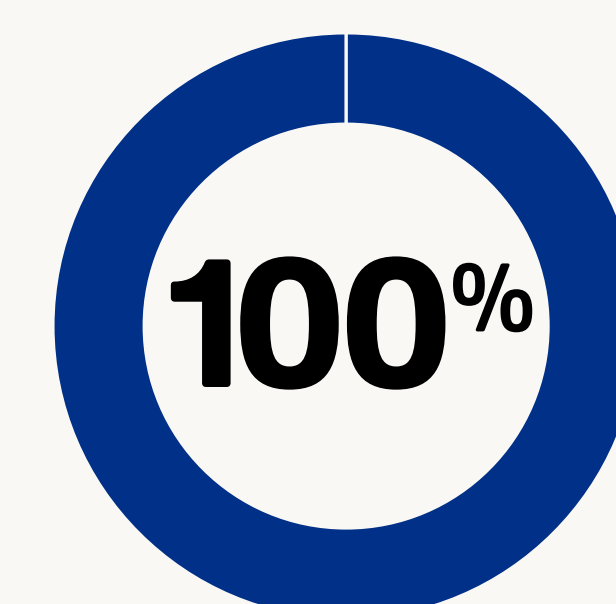
Dispute Automation worked with Parts Geek to design best-in-class dispute response templates and address 100% of disputes, resulting in a 68% increase in win rate and 2.5 fold increase in overall dollars recovered.⁵

"I knew we needed a chargeback solution that could scale with our growing business," said Jon Sinclair, Parts Geek's president. "Chargehound has increased revenue recovery and created operational efficiencies that will benefit us long-term."

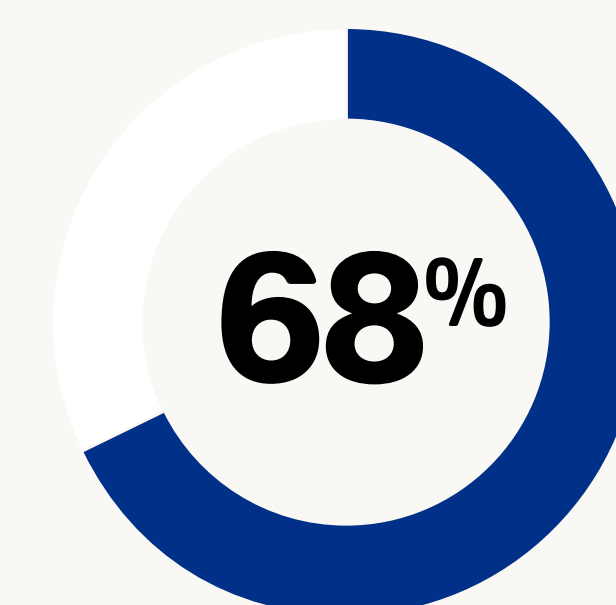
Leveraging Dispute Automation's fully-automated solution across PayPal, Braintree and AMEX have enabled the Parts Geek team to eliminate time on chargebacks and focus teams on providing the high-quality service customers expect.

Dispute Automation worked with Parts Geek to design best-in-class dispute response templates.

Disputes addressed:



Win rate increase:

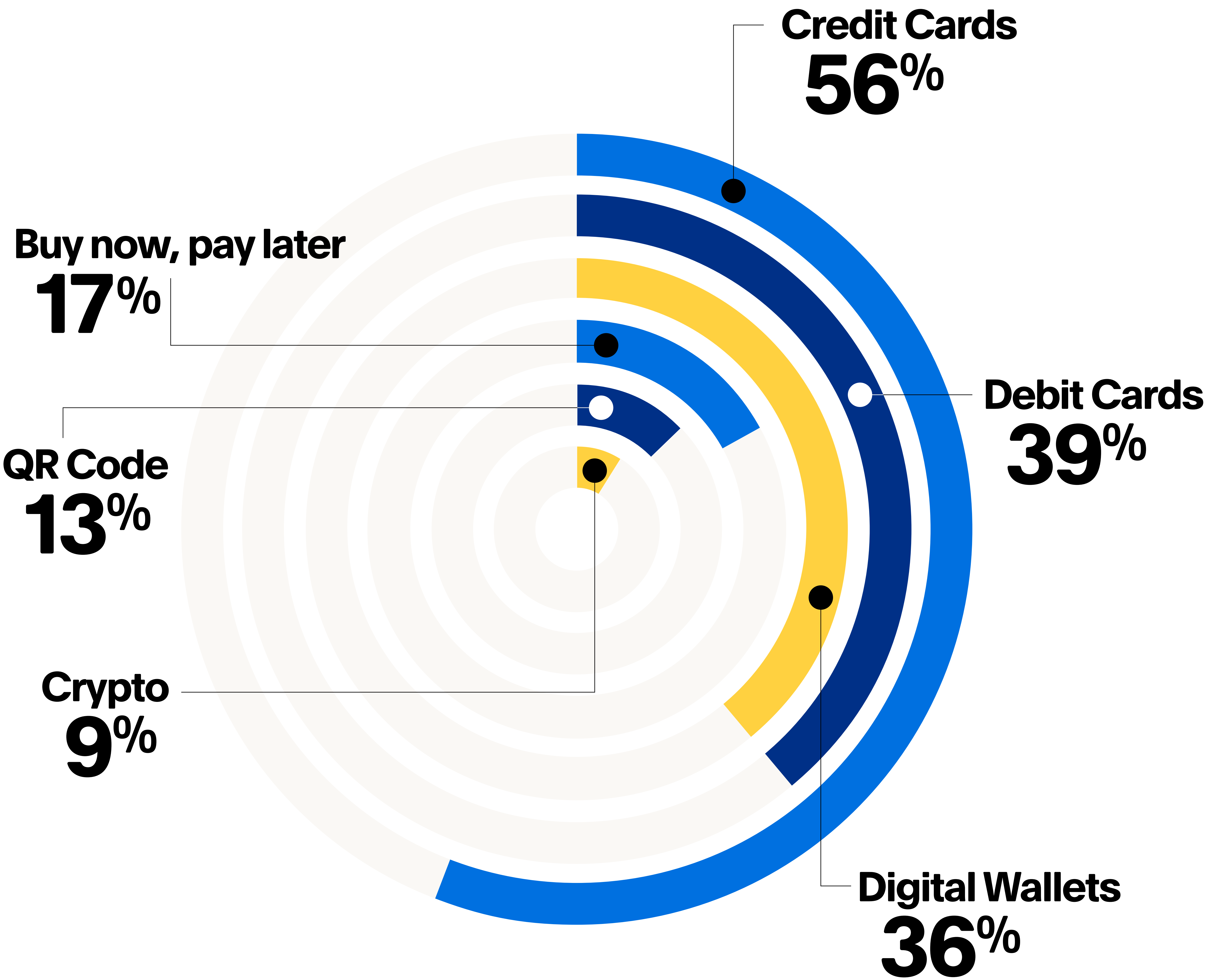


Increase in \$ recovered:



The Numbers You Need to Keep Up with Your Customers

Help your customers feel secure by providing ways to pay that help instill confidence. Here are the payment sources most trusted by consumers in the US when shopping online or in-store:⁶



The Stack

Brought to you exclusively by  **PayPal**

Access more resources to make your business more resilient and help you plan for 2023:

PayPal.com/us/enterprise/business-roadmap

The content of this magazine is provided for informational purposes only. You should always obtain independent business, tax, financial, and legal advice before making any business decision.

¹Ponemon Institute, Commissioned by PayPal. The 2022 True Cost of Online Fraud Global Study. Ponemon Institute surveyed 3,739 individuals in the United States (442), Canada (468), Australia (475), United Kingdom (471), France (462), Germany (453) and European Cluster (968). August 2022.

²Forrester Consulting, a study commissioned by PayPal, November 2021. Forrester conducted an online survey with 309 global fraud prevention decision-makers at ecommerce companies across North America (102), Europe(104) and Australia (103). Base: 253 global fraud prevention decision-makers at e-commerce companies planning to invest/investing in an automated fraud management solution.

³Comparative analysis of major global payments network and PayPal internal data from transactions over a 12-month period from Q4 2020-Q3 2021 in 8 markets (US, UK, DE, AU, FR, IT, ES, CA) across 12 verticals. Does not include transactions from domestic schemes (e.g. Cartes Bancaires, eftpos). *Composite results weighted across US, UK, DE, AU, FR, IT, ES, and CA based on size of 2021 digital commerce markets, sourced from Euromonitor.

⁴Forrester Consulting, a study commissioned by PayPal, November 2021. Forrester conducted an online survey with 309 global fraud prevention decision-makers at ecommerce companies across North America (102), Europe(104) and Australia (103). Base: 253 global fraud prevention decision-makers at e-commerce companies planning to invest/investing in an automated fraud management solution.

⁵Data source is from Parts Geek, 2022. These results may not be typical and may vary substantially by business. This content is provided for informational purposes only. You should always obtain independent business, tax, financial, and legal advice before making any business decision.

⁶IDC Infographic, Sponsored by PayPal, From Global to Local, Retailers Must Know Shopper Expectations, Doc. #US49075222, May 2022. The PayPal Digital Payments Customer Experience survey conducted by IDC in January 2022 among 2,004 consumers in US. unweighted valid n = 2,004.