THEFRAUDPRACTICE
PROTECTING THE BOTTOMLINE

BUILDING THE BUSINESS CASE:

WHEN IT MAKES SENSE TO OUTSOURCE MANUAL REVIEWS

White paper presented by The Fraud Practice, LLC.

BUILDING THE BUSINESS CASE:

WHEN IT MAKES SENSE TO OUTSOURCE MANUAL REVIEWS

Author: Justin McDonald, Sr. Risk Management Consultant

Introduction 3
Assessing the Costs of Managing Reviews In-House 4
Assessing Manual Review Performance 6
The Cost of Reviews Relative to Margins 8
Assessing the Benefit of Third Party Services 10
Vendor Shopping 11
Comparing Vendor and In-House Performance 12
Other Times When Outside Help Should be Considered 14
Conclusion 16

A white paper prepared by The Fraud Practice, LLC.

For additional updates and commentary, please visit:

http://fraudpractice.com

© The Fraud Practice, LLC. All Rights Reserved.

Introduction

Typically the lowest-tech and least sexy aspect of a risk management program is performing manual reviews, yet nearly every merchant transacting in the Customer Not Present channel has to do them. If not conducting manual reviews then a merchant is either leaving money on the table with wrongly rejected orders or they are vulnerable to fraud by letting risky orders pass right through. Most merchants would agree that manual reviews are a necessity, and since it's something that needs to be done it might as well be done in the most cost effective way.

Manual reviews can often be the most expensive component of a risk management operation as they are labor intensive and must keep up with a merchant's growth and transaction volume. Deciding when to queue an order for manual review is a function of the cost of performing the review, the benefit of accepting the sale and the risk that the order may be fraudulent. Merchants should have a strong understanding of the average time, costs and loss rates associated with their manual review operations to best decide which transactions are worth reviewing. However, merchants tend to limit this cost-benefit analysis to the scope of what they can do in-house, and never consider the costs and performance a third party manual review service may be able to offer.

One of the more difficult aspects of growing an online business is being able to manage manual reviews while keeping pace with the increasing transaction volume.

This isn't to say that all merchants should scrap their in-house manual review teams and send all their orders to a service provider. Rather, merchants should consider the costs and value of such services in relation to their in-house performance and costs associated with manual reviews to build an accurate business case and assess if sending orders to a manual review vendor is more cost effective, whether it's for a handful, many or all of a merchant's questionable orders.

The first step to building this business case is for the merchant to conduct a detailed analysis and have a full understanding of their costs, performance and returns on current manual review processes. This includes knowing important Key Performance Indicators (KPIs) such as the average number of manual reviews per Full-Time Employee (FTE) hour, loss rates and other data. This information will influence decisions on what orders to send to review based on the level of risk and the dollar value of the order relative to the costs associated with performing the review.

After conducting this internal analysis, many merchants will find that there are many orders not worth the time or cost of an in-house review. For some merchants, these orders are reviewed anyway, eating in to the margin and making the order not profitable. Some merchants will decline these orders and risk losing the lifetime value of a new customer, or will blindly accept the order and hope for the best. There is also a third option that many organizations do not consider: sending these orders to a service provider who will review the transaction on the merchant's behalf.

Establishing a thorough understanding of the costs associated with performing order reviews in-house sets the baseline for merchants considering third party services.

The focus of this white paper is to help merchants build the business case to understand when this third option, outsourcing manual reviews to a third party, make sense. It seeks to define and explain the key concepts and important components of effective manual review processes to aid in assessing the total cost and net benefit of conducting reviews internally. From there merchants can consider services that perform order reviews, and potentially cover the liability of fraud on orders they approve, to see if such services can reduce costs, improve sales and/or reduce losses for all or a subset of orders that require further review.

Assessing the Costs of Managing Manual Reviews In-House

In-house manual reviews refer to those being performed directly by a merchant's personnel, but the merchant likely uses some third party tools or services, such as a queue management system or reverse lookup service, to facilitate the order review. Between the cost of the employees and the tools or services they use, the total costs for performing manual reviews may be more than a merchant realizes. There are three critical components that contribute to the cost of conducting manual reviews and there are several considerations for merchants assessing these costs.

- **Queue Management Platform**
- **Third Party Data Sources and Review Tools**
- **Risk Management Personnel**

Queue Management Platform

The queue management platform refers to the infrastructure that routes transactions to appropriate hold queues and adds them to the work list for agents to manually review. Typically manual review agents work within this platform to pull and assess the orders they review, and the platform may have capabilities to sort and assign orders to specific fraud agents. The queue management platform often provides relevant details about the transaction as well as link analysis tools to investigate related orders. It may also connect to other third party lookup and authentication services.

Larger organizations can build a customized platform in-house while many larger merchants and most smaller ones access their queue management platform through an operational fraud provider, or via cloud or locally hosted software. Home grown platforms entail substantial start-up costs with some ongoing costs due to maintenance, but after initially building the system the on-going costs are minimal. A third party queue management platform typically has a fixed monthly cost, although the expenditure specific to queue management can be difficult to estimate when purchased through an operational provider that bundles this with automated and other fraud screening services.

Third Party Data Sources and Review Tools

Many authentication and verification checks that are performed during manual review represent additional costs, but all checks or services may not be needed for each order reviewed.

Whether included with the queue management platform or accessed through another third party, merchants must provide data sources as well as manual review tools and services for their fraud review agents to use. While the manual review platform may include link analysis, services that provide or lookup consumer data used for authentication are typically additive in cost. This includes reverse name, phone, or address lookups as well as BIN databases, email authentication and any verification services the review agents may use.

Merchants may purchase access to a database, most typically BIN (bank identification number) or ZIP code data, which is typically on a subscription basis and the data is kept up to date. More common are merchants providing reverse lookup tools, which are often priced per lookup but can also be offered on a subscription basis. There are several considerations when calculating the total cost of these tools and services. For example, when multiple services priced on a per transaction or per lookup basis are available but may not be used on each reviewed order. Also, a merchant may use a service provider that offers both authentication services for automated fraud screening and manual lookups for reviews, and these costs should be identified separately.

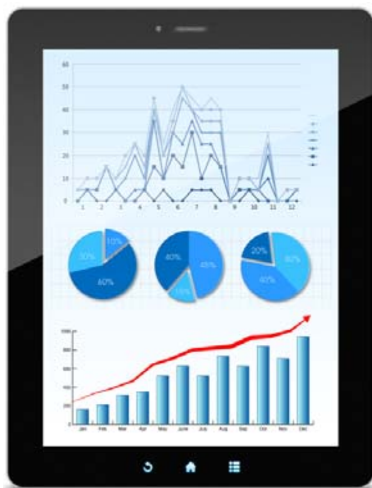
Risk Management Personnel

The quality and effectiveness of manual reviews are directly proportional to not only the tools and processes a merchant has in place, but also the knowledge and experience of those overseeing and performing reviews. It is common for merchants to have a manager in charge of the manual review agents as well as a two or three levels of seniority amongst review agents. When performing manual reviews in-house merchants should not only consider the total cost of wages and salaries, but also the costs of training new fraud agents with the systems, tools and services the merchant has in place. Organizations with a high level of employee turnover may find difficulty maintaining consistency with overall manual review performance in addition to higher total employee training and onboarding costs.

Merchants with a high level of turnover among manual review staff will often incur higher training costs and are likely to have less consistent results with reviews overall.

Manual reviews are labor intensive, so it should come as no surprise that training and employing personnel is typically the most costly aspect of a risk management operation. Of course this cost is directly proportional to the number of people on staff, which is contingent on transaction and review volumes. Large and enterprise merchants with high volumes typically have large review teams and many have multiple office locations in different regions, domestically as well as internationally. When a merchant and their manual review processes are on this large of a scale then there are also substantial overhead costs to take into consideration, such as office rents.

Assessing Manual Review Performance



When building the business case for considering the use of third party manual review services merchants must not only understand their current costs of in-house manual review processes, but also their current in-house performance. This is imperative in building an accurate cost-benefit analysis to understand the current state of manual review operations and understand whether or not a third party provider would provide value. The following are key performance indictors (KPIs) that every risk management leader should be measuring to assess the health of manual review operations. These metrics should be applied at the aggregate level (all reviewed orders) as well as on the individual review agent level.

- **Manual Review Rate**
- **Manual Review Catch & Accept Rates**
- **Manual Review Missed Fraud Rate**
- **Manual Review Insult Rate**
- **Review Rate per FTE Hour**

Manual Review Rate

The optimal manual review rate is specific to each merchant, but as a general rule merchants with higher transaction volumes should maintain a lower total review rate.

The manual review rate measures how many transactions are sent to the manual review queue as a percentage of total transaction attempts. The auto-accept rate, auto-decline rate and manual review rate should sum to 100 percent. Merchants should seek to keep the manual review rates manageable as sending too many orders to review results in higher and unnecessary costs. Because manual reviews do not scale well in terms of cost, it is typical for target manual review rates to decline as transaction volumes increase. A merchant processing 100 orders per day can keep up with a 25 percent manual review rate, but likely not a merchant processing 100,000 orders per day. According to the most recent Online Fraud Management Benchmark Study from CyberSource[1], merchants with annual eCommerce revenues exceeding $100 million reviewed 7 percent of transactions on average. By comparison merchants with annual eCommerce revenues less than $5 million reviewed about 40 percent of orders while those with revenue between $5 and $100 million reviewed about one in every four transactions.

Manual Review Catch & Accept Rates

These rates measure what percentage of manually reviewed orders are ultimately declined (caught) and what percent are accepted. Merchants should measure these rates and look for any large swings or changes in the ratio as it could be signs of something wrong with automated screening. Keep in mind that the catch and accept rates refer to how the manual review agent decisioned the transaction, not the final outcome. Therefore these measurements need to be viewed in context with the manual review missed fraud and manual review insult rates to see the whole picture.

Manual Review Missed Fraud Rate

Missed fraud on manual reviews may be referred to as Catch-and-Release as automated screening stopped the risky order but the review agent let it pass through.

This measures the fraud loss rate on orders that were reviewed and accepted, and may be referred to as "catch-and-release." In other words, the transaction was queued for review, the review agent decided the order looked good enough to accept it, but the transaction ultimately resulted in fraud. A manual review missed fraud rate that is too high may indicate a need for more training amongst review agents. However, if manual review accept rates are high but the manual review missed fraud rate is kept low, than this signals that too many good orders are being sent to review.

Manual Review Insult Rate

This refers to the number of transactions that were manually reviewed and declined but later determined would have been good orders, as a percentage of the total number of orders reviewed. When a good customer is turned away for suspected fraud, be it through automated screening or manual review, this is known as a sales insult or false positive. This is one of the most difficult metrics to accurately estimate as many wrongly denied good customers never come back and it is never known if they would've successfully completed the order. If manual review catch rates are high, but so too is the insult rate, than this signals that review agents are being too strict on orders they review.

Review Rate per FTE Hour

This rate measures the average number of reviews completed per full-time employee hour clocked, regardless of the outcome of the review. This should be measured across all agents as well as individually. The per FTE hour review rate is an essential measurement in understanding the labor costs associated with manual reviews. This metric is great for setting goals and comparing the quality of review agents, but must also be looked at in the context of other metrics. For example, a review agent with a very high number of reviews per hour but many insults and missed fraud orders is likely less beneficial than a review agent with a lower review per hour average but few instances of missed fraud or insults on orders they manually review.

The Cost of Reviews Relative to Margins

Many merchants queue and review orders based on risk or uncertainty but do not consider the possibility that conducting the review may make the order unprofitable.

Considering each of these metrics and the estimated costs related to manual review tools, systems and agents, merchants should be able to build an accurate business case detailing the costs and benefits for their manual review operations. Taking into account the number of transactions that can be reviewed, the conversion and loss rates on reviewed orders, the average loss amount, the average good transaction amount and the average total cost per reviewed transaction merchants can get their bearings. With some back-of-the-envelope calculations organizations can then determine when it is advantageous to conduct manual reviews based on current in-house costs and when it is not.

Organizations can use the following formula to calculate the net benefit of performing a manual review, and for any order where the net benefit is negative the merchant is likely better off not performing the review, or at least not conducting it in-house. This formula takes into account the average cost of performing manual reviews, the probability of the reviewed order being accepted, the probability of a reviewed order resulting in missed fraud, as well as the total loss amount associated with missed fraud and the profit margin for the particular order in question.

$$Net\ Benefit = MRa \times [(1 - MRf) \times P - (MRf \times L)] - MRcost$$

Equation Variables	
MRa	Manual Review Accept Rate
MRf	Manual Review Missed Fraud Rate
L	Fraud Loss Amount
P	Profit Margin (excl. cost of review)
MRcost	Average Cost per Review

The net benefit of manual reviews should be both calculated with average order values and with common items or orders.

To provide an example, let's say that it costs a merchant on average $1.20 to manually review a transaction, 60% of reviewed orders are accepted and this results in a 1% missed fraud rate on reviewed orders. The order in question would result in a profit margin of $7.50 if it is a good order, but would cost the merchant $75 if it resulted in fraud, taking into account the lost inventory, shipping and chargeback fee. This order would be worth the merchant performing a manual review as the net benefit of performing manual review, taking into account the probability that the order is accepted and the likelihood that it could still result in a fraud loss, is about $2.81.

$$Net\ Benefit = 0.6 \times [(0.99 \times \$7.50) - (0.01 \times \$75)] - \$1.20$$

$$Net\ Benefit = (0.6 \times \$6.675) - \$1.20$$

$$Net\ Benefit = \$2.805$$

Note: *For simplicity this example analysis considers yearly averages in terms of review costs, review accept and review fraud rates. During times of peak volume, major sale events and higher fraud activity many of these metrics can fluctuate and impact the net benefit of performing manual reviews.*

It is worthwhile for all merchants to go through this exercise with their own figures, and to perform this calculation using average fraud loss amounts and average profit margins across all goods and services sold to understand the net benefit of performing manual reviews overall. If a merchant calculates a negative net benefit for performing manual reviews using their average order margin and loss amounts than the organization should seriously consider overhauling their internal manual review processes as well as the possibility of sending many of their questionable orders to a third party provider.

This exercise should also be calculated for popular SKUs or orders to best understand the net benefit of manual reviews and how they differ across a variety of transactions. For example, a product with a lower than average margin and higher than average cost basis for loss can have a negative net benefit of performing manual reviews, even if manual reviews provide a positive net benefit on average overall.

Most organizations will find that manual reviews provide a positive net benefit on average, but there will be certain orders where this is not the case on the individual transaction level. With these orders merchants should consider the possibility of third party review services, as they may provide an opportunity to attempt converting the order without negating the margin.

If the cost of performing a manual review negates the profit margin on a given transaction merchants may opt to decline the order, take a chance on accepting it without a closer look, or submit the order to a third party service provider.

Assessing the Benefit of 3rd Party Services

After going through these assessments and exercises organizations should have a strong understanding of their costs and benefits for performing manual reviews which will set a baseline level of comparison for exploring third party order screening services. Even when an organization realizes a positive net benefit with performing reviews in-house they may consider the use of third party services if they provide a greater benefit. There are many considerations when assessing third party order screening services, both in terms of comparing vendors and in terms of measuring their performance and benefits against a merchant’s incumbent, in-house processes.

The first step here is to understand the value and benefit of the third party service. There are several vendors that offer automated and manual review screening services where merchants can submit any or all of their orders. After comparing service offerings in the market organizations can determine which model works best for them, then compare the net benefits a third party can offer versus what the merchant achieves on their own.

Vendor Shopping

When comparing third party order verification services from a cost perspective a merchant should consider whether they are charged for all or just the accepted transactions, if the service guarantees against fraud and how that impacts cost.

When comparing order screening services and the vendors that offer them there are several important considerations to keep in mind, such as who holds the liability of fraud on orders the vendor accepts. If the merchant is still liable for fraud than the vendor should be contractually held to service license agreements (SLAs) that define acceptable loss rates and/or total loss amounts. However, many merchants turn to these services because they both perform order screening and offer a guarantee against fraud. In this scenario, if the vendor accepts the order but it results in fraud the merchant still gets paid. This can be a great benefit for the merchant and simplifies the formula for determining the net benefit as there is zero probability of a loss for the merchant, the only probability factor is whether or not the vendor accepts the order (this equation is detailed in the next section).

Merchants must examine the cost and pricing structure for these services as well. Typically vendors that perform manual review charge a small per order fee plus a percentage of the order value to reflect the level of risk that each transaction represents to the vendor. The primary consideration isn't only comparing the costs between vendors and costs of performing reviews in-house, but also whether this is charged for all transactions or just the orders that the vendor chooses to accept. When the vendor only charges merchants for transactions they decide to accept, than the merchant can consider sending any order where the potential benefit of converting the order outweighs the cost to screen it. In many cases merchants will use this as a last ditch effort to try and convert orders they are about to walk away from.

Other important considerations when comparing service providers are the days and hours they are able to complete order reviews and the types of transactions they cover. Smaller merchants often only have review staff in during peak business times and regular business hours, and third party review services can often add value by performing reviews any time. Merchants need to be sure they understand when reviews can be submitted and how this can impact response time. Ask if reviews can be submitted 24/7 and if the response time varies based on when the order is submitted, for example if an order is submitted at 3:00PM versus 2:30AM. Consumers expect a quick response no matter what time they make the purchase, and holding off a review until 8:00AM the next business day can result in abandonment.

If a fraud liability shift is offered then merchants should also understand what types of orders are covered and if any order types impact the costs.

Merchants must also consider what transactions they are and are not able to submit for review, when a fraud guarantee is available, and how transaction characteristics may impact the cost. These concerns are primarily around international orders and certain higher risk order types, such as digital goods. Some providers may not accept transactions from certain high risk industries, such as gambling or adult.

If a merchant does business internationally or sells digital goods or services they will want to be sure their service provider supports these transactions and understand how the costs differ. Typically international and digital goods orders will be charged a higher rate, if the vendor supports these types of orders, as they reflect higher levels of risk. Merchants should also inquire about the acceptance rates on these orders as they may be lower as well.

Comparing Vendor and In-House Performance

Determining whether or not a third party provider can provide value and improvement in terms of conducting manual reviews can be completed with a simple analysis determining which option offers a larger net benefit. Keep in mind that this shouldn't only be considered for orders where the merchant's internal manual review processes result in a negative net benefit, but for all common SKUs and orders as both options may offer a positive net benefit but a service provider may be able to offer a greater one.

Consider a revised version of the formula for determining the net benefit of manual reviews when this is performed by a vendor that offers a guarantee against fraud versus performing this in-house. In this scenario the net benefit is equal to the probability that the vendor accepts the order multiplied by the profit margin on that order, then subtracting the cost of services for the review and fraud guarantee. If the vendor does not accept the order (and fees are only charged on accepted orders) then the cost and net benefit are zero, and if the order is accepted the merchant receives payment, regardless of whether the order is legitimate or fraudulent, thus eliminating several variables from the equation.

$$\textit{Net Benefit (Fraud Guarantee Vendor)} = (MRa \times P) - MRcost$$

versus

$$\textit{Net Benefit (In-House)} = MRa \times [(1 - MRf) \times P - (MRf \times L)] - MRcost$$

When calculating and comparing the net benefits of manual reviews between third party and in-house options merchants should start with average figures, such as the average total order amount and profit margins. Keep in mind that the vendor costs typically vary depending on the order amount, as many services charge a small flat fee plus a percentage of the order value. The average vendor fee can be estimated using a merchant's average order value.

"There are more factors and potential benefits with Order Verification Vendors outside of costs, such as the ability for merchants to reduce their liability of fraud and a vendor's ability to provide responses on questionable orders more quickly."

Michael Dembinsky, CEO, eFraud Security

Comparing the net benefit values between the in-house and outsourced review options merchants can then make more accurate assessments and better decisions on when to send manual reviews to a third party provider. If the third party manual review option provides a greater net benefit than internal manual reviews using average order values, margins and loss amounts, than it is likely that the vendor can offer a more cost effective option for manual reviews on most orders. However, even if the net benefits are close to even or if in-house reviews provide a greater net benefit on average, the merchant may still benefit from sending certain orders to the third party. This isn't just for orders where the merchant calculates a negative net benefit of performing manual reviews internally, but for any order where the third party service can offer a greater net benefit.

"Often times the cost factors of using internal reviewers versus outside Order Verification Vendors may be about equal in terms of dollar amount, however, there are additional factors and potential benefits outside of costs. There is great value in being able to shift the liability of fraud to another party, effectively outsourcing the 'fraud problem.' The value is greater, even more so, if the vendor offers to provide quicker or instant resolution responses."

-- Michael Dembinsky, Chief Executive Officer, eFraud Security

Although much of this discussion has been grounded in the context of the net benefit formulas, there are a lot of qualitative assessments an organization can make that will identify orders where outsourcing manual reviews is likely to be a better option. Orders or SKUs where the margins are lower than average and/or those where the cost basis for loss is higher than average are worth plugging in to each equation to see what offers the greater benefit, for example. Merchants don't need to perform this comparative analysis on every single SKU, but should go through a sampling of orders as well as ones where risk management leaders suspect manual reviews take away most or all of the margin.

When a merchant compares what a third party order screening and review service can offer versus their internal manual review processes the focus should be on the total costs of the service or internal reviews, the conversion rates and the associated losses. When the provider offers a fraud guarantee it changes the dynamic as the merchant should then compare the cost of third party services to the cost of internal reviews plus the average losses on reviewed orders. For some merchants it may be that the cost of using the third party provider is comparable or less than the total cost of fraud losses that are associated with internal manual reviews. Such losses could then be reduced to zero when the provider offers a fraud guarantee and the merchant submits all of their orders requiring review.

For many merchants the savings from reducing fraud liability alone may be worth the cost of third party order verification services, but merchants must also consider the conversion rates that a service provider offers.

The other consideration is the conversion rates on reviewed orders. If the third party provider does not convert as many orders as the merchant would when reviewing in-house, it is possible that this could negate the benefit of the fraud guarantee. If there is a substantial disparity between internal review and third party review conversion rates than a merchant would likely not benefit from submitting all orders to the service provider, but could still benefit from sending certain orders.

Other Times When Outside Help Should be Considered

While calculating the net benefit of manual reviews is a good exercise for merchants to perform there are times when the formula can fall short or not show the whole picture. This is particularly true during times of rapid growth and during holiday or other peak sales seasons. During times like these the average order value, number of transactions queued for review and other metrics can see significant swings and changes, impacting the accuracy of order review net benefit estimates. In the following scenarios merchants may consider third party review services, even if only as temporary solution.

When Rapid Transaction Growth Puts Strain on Internal Review
This is one of those problems that is nice to have. When merchants expand and make more sales there can be some growing pains. This is particularly relevant with scaling manual reviews as transaction volumes and fraud attempts increase. Automated screening may seek to send a set percentage of medium-risk orders to review, but as transaction volumes increase and this percent stays constant, the total number of transactions sent to review grows. At this stage most merchants consider two options: growing review teams or reducing the percent of transactions that go to review. A third option is sending the reviews the merchant cannot handle with current levels of staffing to a third party provider.

When Seasonal Peaks Reduce Manual Review Performance

Many organizations hire seasonal help to handle the increase in transaction volumes and fraud attempts during the holiday season or other peak business times. While the seasonal help is needed to handle the temporary increase in volume overall manual review performance tends to suffer as seasonal agents typically have less training and experience. Merchants may consider sending a portion of reviews to a third party service during these peak times such that they can keep a consistent review volume completed by the review analysts while sending the additional seasonal volume to a service provider. This can also eliminate the annual hiring and training costs of seasonal employees. If merchants typically bring on seasonal help they should reevaluate the net benefit formula using peak season average review performance, margins and loss rates as they will likely be different. This will provide a more accurate comparison when weighing the net benefit of using a third party order screening and review provider.

Determine which is more cost effective: training and hiring seasonal staff or temporarily sending excess reviews to a third party provider.

When Internal Review Agents Still Can't Decide or Say "No"

Sometimes even after going through all manual review processes a merchant or review agent is still not comfortable letting an order through. At this stage the cost of performing the in-house review has already accrued, it's a sunk cost, and declining that order will result in a net loss (of course accepting the order and it turning out to be fraudulent can result in a much greater net loss). If the review agent is still uncertain about the order the merchant can consider the possibility of sending it to a third party service, and if that service only charges per accepted orders and guarantees against fraud the merchant has nothing to lose. If this is the case, merchants can consider sending all transactions they are not comfortable accepting to the third party provider as a final effort to see if the sale can be converted. Keep in mind that when a merchant performs internal reviews and sends the transaction to a third party the costs associated with each of these steps impacts the net benefit of converting that order.

Conclusion

It is critical for merchants to understand when it makes sense to perform manual reviews and when the cost of performing a review in-house exceeds the benefit of being able to convert the order. It is dangerous to assume that it's always worthwhile performing a manual review on an order with uncertain risk as thin margins can easily turn negative. Most merchants will encounter some orders that are not worth the cost of reviewing, whether they realize this or not. Organizations that perform the analysis to understand the cost and benefits of performing manual reviews in-house are a step ahead and have a much better understanding of when order reviews do and do not make sense.

The first step is establishing a thorough understanding of the in-house costs for performing manual reviews. Merchants can then review their performance in relation to their costs to determine the average net benefit of manual reviews overall as well as for individual orders. Only after current in-house metrics and costs are defined can merchants make accurate comparisons to weigh the costs and benefits of what third party services can offer.

Based on the potential profit margin, the cost of performing a review and level of risk associated with a given order, it might not make sense for a merchant to conduct a manual review in-house, but outsourcing the order to a third party provider may offer the opportunity to convert it profitably.

The key here is that organizations explore other options so they know they are making the best choice for each order that requires review. In many cases third party services can offer stronger net benefits with manual reviews than the merchant can provide internally, maybe not for all but at least some transactions.

Another consideration is that even though a single order may no longer be profitable if it requires manual review, the lifetime value of that consumer can still be positive in the long-run, but a sales insult on one order may mean that customer is lost for good. Even in these cases the merchant should choose the path that leads to the better (least negative) net benefit for performing manual reviews, whether it is completed in-house or by a third party. This way the order still has an opportunity to convert, the negative net benefit for re-viewing this order is minimized, and the potential positive lifetime value of the customer is still intact.

For many merchants manual reviews are necessary, so they should be done in the most cost effective way. Many organizations never consider sending orders that require review to a third party provider and limit themselves to the net benefit of conducting reviews in-house. The reality is that merchants do have options, and at the very least these options should be considered. For a merchant to fully consider these options they must first build the business case for their organization to properly understand the cost and benefits of conducting reviews, and hopefully this white paper will assist in doing just that.

About the Fraud Practice

Are you looking for answers or solutions, for eCommerce payments and fraud management? Give us a call for a free introductory consultation to see if we can help you. Even if we can't meet your needs we most likely know someone who can, and we are happy to provide you with contacts of reputable firms and individuals servicing the space.

David Montague,
Founder

The Fraud Practice is a privately held US LLC based in Sarasota, Florida. The Fraud Practice provides training, research, and consulting services on eCommerce payments, fraud prevention, and credit granting. Businesses throughout the world rely on The Fraud Practice to help them build and manage their fraud and risk prevention strategies.

For more information about The Fraud Practice's prepared research and consulting services, please visit www.fraudpractice.com.

For additional information about The Fraud Practice's online training programs and to register in a course of Certification Track, please visit www.CNPtraining.com.

The Fraud Practice LLC
www.fraudpractice.com
www.CNPtraining.com

Toll Free: 1.888.227.0402
Telephone: 1.941.244.5361

Email: Questions@fraudpractice.com

BUILDING THE BUSINESS CASE:

WHEN IT MAKES SENSE TO OUTSOURCE MANUAL REVIEWS

White paper presented by The Fraud Practice, LLC.

© The Fraud Practice, LLC. All Rights Reserved Subject to Terms of Use available at http://fraudpractice.com/terms.html. The Fraud Practice, LLC names and logo and all other names, logos, and slogans identifying The Fraud Practice's products and services are service marks of The Fraud Practice, LLC. All other trademarks and service marks are the property of their respective owners.

Images Copyright © iStockphoto LP

Sources:
1 - CyberSource Online Fraud Management Benchmark Study