



MasterCard SecureCode

Case Study: CompUSA



CompUSA is one of the nation's leading retailers and resellers of technology products and services. In addition to its 230 retail Superstores, CompUSA operates Web sites that offer an assortment of over 120,000 items.

CompUSA recognizes that selling online presents unique security challenges. On the Internet, it can be difficult to verify that a buyer is the person he or she claims to be. And, unlike the retail store environment, there's no signed sales receipt and no definitive way for a merchant to dispute a cardholder claim that a purchase wasn't made or authorized. For these reasons, e-commerce chargeback rates are as much as six times higher than overall chargeback rates.¹

CompUSA eventually found the answer to its fraud challenges in 3-D Secure technology. 3-D Secure is offered by MasterCard® International under the program name MasterCard® SecureCode™.

Facing the Challenges of e-Commerce: The Initial Approach

Online merchants such as CompUSA typically use a variety of measures to reduce the incidence of fraudulent

transactions. Basic tests are used to match buyers against a range of internal and external databases, such as known fraudsters, reverse lookups, and public records. Merchants also run predictive models to score transactions based on certain risk characteristics identified from prior fraudulent transaction activity. Once a potentially fraudulent transaction has been flagged, the merchant contacts the bank to validate or invalidate the account.

Steve Javery, Director of e-Commerce for CompUSA, calls this process "finding the needle in the proverbial haystack." Says Javery, ***"There hasn't been an easy way to distinguish good from bad orders. The manual legwork of reviewing flagged transactions is very time-consuming, and although it helps us catch fraudulent transactions, it also slows down processing time on perfectly good orders. And we probably even end up turning down some good orders, in which case we lose those revenues and customers altogether."***



MasterCard SecureCode: Reduction in Fraud

The 3-D Secure protocol employed by MasterCard SecureCode eases the burden of online fraud for

participating merchants. SecureCode links a cardholder to a specific online transaction, giving the merchant explicit evidence of an authorized purchase and providing the basis for a guaranteed online transaction. Once a 3-D Secure-compliant application is deployed on the merchant Web site, the merchant can pass transaction details to the issuer and request authentication. The issuer then confirms the identity of the cardholder and returns an authentication value to the merchant. That authentication value is sent along with the merchant's normal authorization request and protects the merchant against cardholder claims that the transaction was not authorized or not recognized.

Because each SecureCode transaction is automatically authenticated, SecureCode reduces the need for manual review of transactions. CompUSA uses MasterCard SecureCode to quickly validate transactions that fall out during its up-front fraud detection screens. Says Javery, ***"When a cardholder has signed up for SecureCode, we don't need to go through a manual review on that transaction—nor do we have to contact the cardholder's bank for verification. We just process the order and collect the revenue."*** The company has also built the protocol into its fraud scoring models. ***"We give SecureCode a heavy weighting in the model, so those transactions are much more likely to pass our screens in the first place."***

¹MasterCard INET Reports, Q2 2005

And implementing SecureCode is easy for merchants. ***“We adopted the 3-D Secure protocol in 2001, when it was brand new, and even at that early stage it took us only about 120 man-hours of developer time. Subsequent upgrades have taken only about one-third that long,”*** says Javery.

SecureCode Benefits: More than Just Fraud Reduction

MasterCard SecureCode has dramatically decreased order processing time, transaction review rates, and fraud rates. At the same time, SecureCode has enabled merchants to generate incremental online sales, because the secure transaction environment allows both the consumer and the merchant to feel confident.

SecureCode also reduces the risk of false positives—good orders that are turned away due to fear of fraud. This helps avoid a negative interaction with customers. It also results in more sales for the online merchant.

“The 3-D Secure protocol has been a slam dunk for us. It was easy to implement. We’re saving time and money, and we’re getting orders processed and fulfilled more quickly. Our fraud rate is down significantly. And we are seeing more volume because we are correctly perceived as a safe place to shop online. And best of all, these benefits all build on each other, creating a nice, positive cyclical effect,” says Javery.

According to CompUSA, the numbers tell the whole story. CompUSA’s manual review rate has dropped from 44.5% before 3-D Secure to 16.7% in 2004, and it continues to decline.

And the fraud chargeback rate has plummeted from 7.41% to a negligible 0.08% in the same period.

Steady Enrollment Growth

Since 2001, 3-D Secure transactions have been growing steadily as a percentage of total CompUSA transactions. Presently, nearly 60% of CompUSA transactions from all payment brands are 3-D Secure-enabled, meaning that the card issuer has made the program available to its cardholders. About one-third of those cardholders have enrolled in the program; these cardholders are considered fully-authenticated.

Consumers are Satisfied with SecureCode

E-commerce security is a major concern for most consumers. At the time SecureCode was introduced, 70% of consumers were concerned about security and fraud issues, and 45% of consumers who were not shopping online said they would start if there were better security.² SecureCode addresses these concerns. ***“When we first implemented 3-D Secure, we were a little concerned about customer acceptance and behavior. But so far, everything has been very positive. SecureCode does not seem to add any time to the overall transaction process. Customers are not abandoning the shopping process at any greater rate. And we’ve received very few complaints,”*** says Javery.

Why SecureCode?

The CompUSA story illustrates the potential value of SecureCode to online merchants and their customers: decreased order processing time, reduced

fraud, increased online sales, and customer peace of mind. Says Javery, ***“The more cardholders that adopt SecureCode, the better it is for our business. SecureCode is truly a must for any online commerce site.”***

How to Get Started

To become a SecureCode merchant, visit www.securecodemerchant.com and follow these steps:

1. Contact your transaction processor to ensure it supports MasterCard SecureCode. If it does not, please send an e-mail to securecodemerchant@mastercard.com and a MasterCard representative will contact you directly.
2. Load a SecureCode-compliant merchant plug-in application on your server, available from compliant vendors. Alternatively, you can contract with a hosted service to perform the authentication process for you. For a list of SecureCode-compliant vendors, visit www.securecodevendors.com.
3. Conduct a simple test with MasterCard to help check that you’re ready to go.
4. Add the MasterCard SecureCode program identifier to your website to let customers know you are working to secure their online shopping experience. For the Program Identifier Usage Guidelines and artwork, visit www.securecodemerchant.com
5. Advertise for free in the SecureCode participating merchant directory on the MasterCard consumer Web site. Go to www.securecodemerchant.com for more information.

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²MasterCard International Consumer Segmentation Research, Q4 2002

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