# Table of Contents

- Introduction ........................................ 3
- eCommerce in Latin America ..................... 4
- Survey Methodology ................................. 5
- Executive Summary .................................. 6
- Automated Screening ............................... 8
- Most adopted fraud detection tools in Latin America .................. 8
- The Cost of Fraud Operations: Manual Review .................... 8
- Improve Order Acceptance Rates ................. 9
- Chargebacks .......................................... 10
- Mobile Commerce and Fraud Prevention in Latin America .... 10
- Conclusion ............................................ 12
- Global Online Fraud Indicators 2016 .......... 13
- How Visa Can Help You ........................... 14
Introduction

If there are two words that sum up the way the world is changing when it comes to managing fraud across digital channels, these are “more” and “fast”. More people are buying more goods and more devices are being connected in the “Internet of the Things”. Digital commerce is evolving faster than ever. That means more opportunity for businesses, but also more competition — and more demanding customers. Businesses must provide seamless online and offline shopping experiences and high touch customer services in order to differentiate themselves from the competition and succeed.

Naturally, this expanding digital commerce environment attracts more fraudsters — often in more sophisticated ways — across all selling channels. For fraud management teams, this means a more complex operating environment than ever before. Broader vision and strong fraud management capabilities are needed to support a merchant’s omni-channel vision.

High growth rates make Latin America one of the most attractive regions in the world for the development of eCommerce but also for fraudsters attacks. By the end of 2016, Latin American eCommerce will represent approximately US$ 66.7 billion (e). Visa’s LAC Online Fraud Report 2016 is the fifth annual study we have developed to highlight some of the opportunities and obstacles experienced by online merchants.

We look forward to discussing how Visa Merchant Sales & Solutions can help you improve your profitability, by helping you better manage fraud and deploying omni-channel strategies.

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eCommerce in Latin America

eCommerce in Latin America is expected to reach **US$ 66.7 billion** in sales for 2016 (e)\(^1\)

- **6%** Colombia
- **9%** Chile
- **12%** Argentina
- **17%** Mexico
- **42%** Brazil
- **14%** Others

Survey Methodology

This study is intended to measure trends and current practices in fraud management across a sample of small, medium and large companies based in Latin America.

Respondents to this survey reported information from 2015 calendar year. Survey respondents were actively involved in their organizations’ fraud management policies and eCommerce operations. 230 survey respondents, comprising both CyberSource customers and non-CyberSource customers, filled out the online questionnaire between March and June 2016. Independent market research firm Confirmit conducted the survey. This report summarizes the survey findings.

Respondents by

Online size by annual sales

- 49% <US$ 5M
- 18% US$ 5M - US$ 50M
- 21% >US$ 50M
- 12% Not provided

Country where headquarters are located

- 24% Argentina
- 15% Brazil
- 9% Chile
- 12% Colombia
- 12% Mexico
- 11% Peru
- 17% Other

Industry

- 14% Digital Goods
- 13% Electronics
- 47% Physical Goods
- 14% Services
- 5% Travel Airlines
- 7% Travel Services
Executive Summary

Latin America has one of the fastest growing eCommerce markets in the world, with sales expected to reach **US$ 66.7 B** in 2016\(^1\). However, it is no longer just about driving more sales in the online channel — businesses show an evolving level of sophistication across channels, as Latin American customers have begun to demand the ability to shop anytime, anywhere, on any device. This added complexity in digital commerce is creating new opportunities for customers to engage with businesses — but it also opens up new avenues for fraud.

In this report, we share findings from our 2016 survey of Latin American businesses to shed light on how they are managing online fraud. Key metrics we will cover include chargeback rates, order rejection rates, manual review rates and acceptance rates following manual review.

Despite its increasingly sophisticated eCommerce market, Latin America still has room for improvement when it comes to efficient fraud management. Fraud management is a balancing act — you need to navigate the tradeoffs among minimizing fraud losses, maximizing revenue, and minimizing operational costs, in order to find the optimal tools and processes for your business.

When implementing their fraud management strategy, businesses often focus first and foremost on minimizing their fraud losses. Latin American businesses exhibit a chargeback rate of 1.4\(^%\)\(^2\). At the same time, with a rejection rate of 8\(^%\)\(^2\), Latin American businesses may be sacrificing a significant portion of valid orders, alienating good customers and reducing their bottom line. Highly accurate fraud detection tools should be used to correctly distinguish genuine versus fraudulent purchases.

To keep operational costs at a minimum, efficient fraud management relies on automated screening. Sophisticated technologies, statistical models, and custom rules assess an order for its fraud risk in real time. Automated fraud screening has the benefit of being near-instantaneous, helping you fulfill orders rapidly and enabling innovative business strategies. With a manual review rate of 29\(^%\)\(^2\), Latin American businesses may not be fully taking advantage of automated tools to help reduce business costs and streamline order acceptance.

This balance between reducing fraud, accepting good orders, and operational efficiency is becoming even harder to achieve with the growth of the mobile channel and ambitious visions of omni-channel commerce. Total mCommerce in Latin America is expected to more than triple from 2015 to 2020 to **US$ 16.6 B**\(^3\), 58\(^%\)\(^2\) of Latin American businesses report that they screen for fraud in the mobile channel. As sales increasingly migrate to mobile devices, developing a deeper understanding of the behavior of your good customers can help you better manage fraud across the mobile channels.

By tracking your own fraud metrics, keeping in mind the various business tradeoffs, and utilizing this report to benchmark your performance, you can discover areas to help you improve your fraud management practices. As digital commerce in Latin America continues to grow across channels, businesses with optimized fraud management strategies will be able to take advantage of these growing opportunities while mitigating risks.

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**Sources:**
2. 2016 Online Fraud Report for Latin America
3. Euromonitor International 2015
The Risk Management Pipeline™ Framework

83% of merchants conduct **manual review** in Latin America
- 87% Argentina
- 77% Brazil
- 85% Colombia
- 89% Mexico
- 83% Latin America
- 83% US and Canada¹
- 75% Europe²

29% of the orders are **reviewed manually**
- 35% Argentina
- 22% Brazil
- 26% Colombia
- 23% Mexico
- 29% Latin America
- 29% US and Canada¹
- 14% Europe²

63% of manually reviewed orders are ultimately **accepted**
- 66% Argentina
- 71% Brazil
- 43% Colombia
- 56% Mexico
- 63% Latin America
- 82% US and Canada¹
- 62% Europe²

8% of orders are rejected due to suspicion of fraud in Latin America
- 8.2% Argentina
- 4.6% Brazil
- 10.1% Colombia
- 14.3% Mexico
- 8% Latin America
- 2.8% US and Canada¹
- 4.8% Europe²

1.4% of sales become **chargebacks**
- 0.8% Argentina
- 1.5% Brazil
- 1.9% Colombia
- 1.9% Mexico
- 1.4% Latin America
- 0.8% Europe²

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¹ 2016 Online Fraud Report for US & Canada, CyberSource
² 2014 Online Fraud Report for Europe, CyberSource

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Automated Screening

Finding the right tools to automatically screen fraud is a key part of achieving a balance. A company can keep fraud low by deploying accurate automated detection and avoid unnecessary overhead by saving manual review for only the most ambiguous orders.

During the automated screening process, a combination of tools — including validation services, proprietary data, multi-merchant data, and device tracking — is typically applied to determine the likelihood of fraud.

Most adopted fraud detection tools in Latin America

- Card Verification Number (CVN)
- Postal Address Validation Services
- Google® Maps™ Lookup
- Telephone Number Verification / Reverse Lookup
- Payer Authentication (3-D Secure®)
- Social Networking Sites
- Credit History

The Cost of Fraud Operations: Manual Review

<table>
<thead>
<tr>
<th>Manual Review Rate (Annual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>35% Argentina</td>
</tr>
</tbody>
</table>

¹. 2016 Online Fraud Report for US & Canada, CyberSource.
². 2014 Online Fraud Report for Europe, CyberSource.
Improve Order Acceptance Rates

Rejected orders due to suspicion of fraud (Annual)

<table>
<thead>
<tr>
<th>Region</th>
<th>Latin America</th>
<th>US and Canada</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>8.2%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>4.6%</td>
<td>2.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Colombia</td>
<td>10.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>14.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rejected orders by merchant size (Annual)

<table>
<thead>
<tr>
<th>Size</th>
<th>US and Canada</th>
<th>Latin America</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;US$ 5M</td>
<td>2.7%</td>
<td>3.7%</td>
<td>8.8%</td>
</tr>
<tr>
<td>US$ 5M - US$ 50M</td>
<td>3.8%</td>
<td></td>
<td>7.8%</td>
</tr>
<tr>
<td>&gt;US$ 50M</td>
<td>2.3%</td>
<td></td>
<td>7.7%</td>
</tr>
<tr>
<td>Not provided</td>
<td>2.8%</td>
<td></td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Post-review accepted orders (Annual)

<table>
<thead>
<tr>
<th>Region</th>
<th>Latin America</th>
<th>US and Canada</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>66%</td>
<td>63%</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>71%</td>
<td>82%</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>43%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>56%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. 2014 Online Fraud Report for Europe, CyberSource.
Chargebacks (Fraud Claim Management)

Chargeback rate by revenue (Annual)

- Argentina: 0.8%
- Brazil: 1.5%
- Colombia: 1.9%
- Mexico: 1.9%
- Latin America: 1.4%
- Europe: 0.8%

Chargeback rate by revenue and merchant size (Annual)

- <US$ 5M: 1.0%
- US$ 5M - US$ 50M: 0.6%
- >US$ 50M: 2.0%
- Not provided: 1.4%

Mobile Commerce and Fraud Prevention in Latin America

Multi-channel, multi-device and mobile-optimized are becoming the default standards for digital commerce globally.
In the 46 researched markets by Euromonitor International, total mCommerce is projected to reach **US$ 1.9 trillion** by 2020. Latin America represents a small but increasing portion of the total. Total mCommerce value in the region is expected to increase from **US$ 4.8 billion** in 2015 to **US$ 16.6 billion** by 2020.¹

Household penetration of smartphones exceeded **100%** in four of the six researched markets in Latin America in 2015. Mexico had the highest household smartphone penetration rate in 2015, at **144%**, and is expected to generate **US$ 51** in mCommerce value on a per capita basis by 2020.¹

Consumers are increasingly using a variety of devices at different times while shopping online – their smartphones during the morning commute, laptops while at the office, and tablets at night. This omni-channel evolution means that a sale can start anywhere, anytime on any device. Instead of a mobile-only fraud management approach, an integrated fraud management platform that offers a single holistic view of fraud activities to spot abnormal behavior across all channels is more effective.

With the mCommerce channel set to grow in Latin America despite slow merchant uptake, there are abundant opportunities for businesses to boost their sales and competitiveness. Similar to venturing into a new market, mobile can seem like unknown territory with its own risks.

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**Merchants operating through mobile channels**

<table>
<thead>
<tr>
<th>Channel Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile Commerce website</td>
<td>54%</td>
</tr>
<tr>
<td>App</td>
<td>7%</td>
</tr>
<tr>
<td>Mobile Commerce website &amp; App</td>
<td>29%</td>
</tr>
</tbody>
</table>

**Fraud prevention strategy for mobile channels**

<table>
<thead>
<tr>
<th>Prevention Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, we screen with eCommerce fraud tools</td>
<td>41%</td>
</tr>
<tr>
<td>Yes, we screen with other tools</td>
<td>17%</td>
</tr>
<tr>
<td>We do not screen</td>
<td>40%</td>
</tr>
</tbody>
</table>

¹ Euromonitor International 2015
Conclusion

Latin American businesses have a long way to go in making fraud management more effective, especially in the mobile channel.

In the face of ever-changing fraud threats, maintaining a positive customer experience while keeping fraud rates and expenses low is a delicate balance. Fraud can never be eliminated, but a well thought out fraud strategy with integrated operations will enable merchants to reach their business objectives in a sustainable and secure manner.

Fraud management is a challenging balancing act in our increasingly complex and competitive digital economy. However, it is a challenge that is addressable. Using the right tools, it is possible to reduce fraud losses and operational costs while improving their customer experience and increasing genuine order acceptance.
### Global Online Fraud Indicators 2016

<table>
<thead>
<tr>
<th></th>
<th>Chargeback rate by revenue</th>
<th>Rejected orders</th>
<th>Manual review rate</th>
<th>Reviewed orders</th>
<th>Orders accepted post manual review</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
<td>0.8%</td>
<td>8.2%</td>
<td>87%</td>
<td>35%</td>
<td>66%</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td>1.5%</td>
<td>4.6%</td>
<td>77%</td>
<td>22%</td>
<td>71%</td>
</tr>
<tr>
<td><strong>Colombia</strong></td>
<td>1.9%</td>
<td>10.1%</td>
<td>85%</td>
<td>26%</td>
<td>43%</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>1.9%</td>
<td>14.3%</td>
<td>89%</td>
<td>23%</td>
<td>56%</td>
</tr>
<tr>
<td><strong>Latin America</strong></td>
<td>1.4%</td>
<td>8%</td>
<td>83%</td>
<td>29%</td>
<td>63%</td>
</tr>
<tr>
<td><strong>US - Canada</strong></td>
<td>-</td>
<td>2.8%</td>
<td>83%</td>
<td>29%</td>
<td>82%</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td>0.8%</td>
<td>4.8%</td>
<td>75%</td>
<td>14%</td>
<td>62%</td>
</tr>
</tbody>
</table>

2. 2014 Online Fraud Report for Europe, CyberSource.
How Visa Can Help You

Visa provides a complete range of fraud management solutions to help businesses identify fraud faster, more accurately, and with less manual intervention. These include:

**CyberSource Enterprise Fraud Management**

CyberSource offers a multi-layered fraud management platform — from account monitoring to transaction fraud detection, and from rules tuning to payer authentication — that helps businesses minimize fraud losses, maximize revenue, and minimize operational costs.

Built on intelligence from 68 billion transactions that Visa and CyberSource process annually and proprietary fusion machine-learning algorithms, the CyberSource Enterprise Fraud Management Platform represents a comprehensive system that helps you:

- Protect revenue and operate more efficiently through more accurate, automated detection, reduce fraud losses, and streamline manual review
- Increase sales and maintain customer loyalty by reducing false positives, increasing order acceptance rates, and protecting customer accounts
- Operate with greater flexibility and scalability through confident, real-time control over fraud strategies and access to expert resources and infrastructure worldwide

**Decision Manager**

CyberSource Decision Manager is the only fraud management platform that uses data from the World’s Largest Fraud Detection Radar, increasing fraud visibility more than 200 times - even for top businesses. With Decision Manager, you can create custom rules and models across sales channels and geographies, all with one platform.

**Decision Manager Replay**

With CyberSource Decision Manager Replay, you can confidently quantify your rule changes before activating them in your live production environment. An industry first, Decision Manager Replay enables you to compare various “what-if” fraud strategies against your historical data, producing a real-time report of likely changes to the transaction disposition and fraud rates.

**Rules-Based Payer Authentication**

CyberSource Rules-Based Payer Authentication provides you with control over the customer experience while giving you access to the benefits of liability shift and reduced interchange via 3-D Secure. You can tailor your fraud risk management and decide when to request 3-D Secure authentication.

**Account Takeover Protection**

CyberSource Account Takeover Protection actively monitors new account creation and account usage behaviors of online accounts, to help you more accurately distinguish valid from high-risk sessions during account creation, login, and updates. As an extension of Decision Manager, Account Takeover Protection inter-operates with the reporting, rules, and tuning tools as part of a fully integrated fraud management platform.

**Managed Risk Services**

CyberSource Managed Risk Analysts have deep fraud management experience. Located on five continents, our analysts are able to detect the latest fraud trends quickly to help businesses minimize fraud losses while keeping operations running efficiently.
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