HOW TO BUILD A FRAUD STRATEGY FOR YOUR EVOLVING MARKETPLACE

EKATA

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As companies like Airbnb and Uber roll into their second decade of existence, the sharing economy they helped revolutionize is showing no signs of slowing down. On the contrary, more industries than ever before are becoming disrupted by marketplace companies, and consumers are interacting differently in all areas of life. Childcare providers, vacation rental owners, and even private investigators can now connect supply to demand directly through a dedicated marketplace.

The overall marketplace economy is maturing, meaning individual companies are having to work harder to compete for the attention of increasingly marketplace-savvy users. And, of course, new and more sophisticated fraud techniques are challenging trust and safety programs.

Through it all, marketplace companies themselves pass through distinct phases of growth, walking a tightrope of user experience, customer acquisition, and fraud prevention. Here are the tools you need to provide a frictionless customer experience while keeping bad actors out, no matter what stage of growth your organization is in.
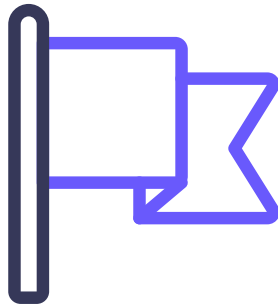
Stage 1: Build Supplier Portfolio

A stage 1 marketplace is still in the initial growth phase. They may be gathering funding as they onboard new users and establish their brand in the market. In the startup phase, a marketplace is faced with the main challenge of creating an effective supply/demand ratio. They need to hit a critical mass of vendors as well as a strong customer base in order to gain traction. **It's all about the onboarding.**

Because of this, many stage 1 marketplaces are focused on **removing as much friction from their onboarding process as possible.** This is especially true on the demand side, because they need to prove to high-quality suppliers that they have a large enough user base to make signing up for their platform profitable.

If they are in an industry that has yet to be disrupted, they also face a major challenge in **shaping expectations and guarantees** in order to attract both investors and users.

Right off the bat, **trust and safety are at the forefront** with some serious questions looming: How do you convey trust and safety to the users of the platform? What will make them feel comfortable giving you their information, meeting others on your platform, and encouraging their own networks to do the same?

At this stage, what can marketplace companies do to prepare themselves for growth while keeping the risk of platform abuse and fraud low?

AT A GLANCE:

Business Goals: Build brand awareness, establish uniqueness of platform, gain traction and market share

Key Metric to track: Signups per day

Geofocus: A few pilot program cities in one country

Risk/Fraud Concerns: Vetting supply-side users

STAGE 1: FRAUD PREVENTION STRATEGY

STAGE 1 CHECKLIST:

Reduce friction at signup

Keep your focus simple

Be quick to react

Use trust and safety as a method of acquisition

Set your future marketplace up for success

Reputation First

Get a fraud expert - you'll need one

REDUCE FRICTION AT SIGNUP

Out of the box solution: Take customer friction points off the platform and utilize "out of the box" solutions (for example: rather than a lengthy form fill, redirect customers to a site where background checks are uploaded in one click).

Cons: While this may provide a less complex infrastructure, it requires users to navigate away from your platform.

In-house data: If you don't want to use an "out of the box" solution, consider how you can utilize in-house data for a more cost-effective, controlled experience (though it may be less thorough than using third-party corroboration).

Cons: This option can be pricey, you wouldn't want to do this for every user being onboarded.

Free data tools: You can also incorporate free search tools to better understand your customers.

Cons: Free data and tools are only as good as they sound, so use caution when relying on free search tools for things like an address and/or phone checks.

KEEP YOUR FOCUS SIMPLE

Start with the areas you can control and leverage internal user data and simple validation data in the background without creating friction to onboard. You may decide to initially allow users on your platform while you research signals that are more indicative of fraud (e.g. certain linetypes or carriers that are associated with burner phones, IP proxy blocks for certain geos, recent email creation dates, etc.). Or you may simplify user flows with two paths that allow for "looks mostly legit" and "needs some friction" to help manage scale

BE QUICK TO REACT

Lenient checks will allow nearly anyone on the platform and increase adoption. But be cautious that this will also require you to quickly create friction when needed if a fraud attack occurs.

USE TRUST AND SAFETY AS A METHOD OF ACQUISITION

It's important for everyone to know that trust and safety come first in your platform, so don't hesitate to share the measures you take to ensure it. Honesty is the best policy here — don't promote this if you don't have the infrastructure and processes to back it up.

SET YOUR FUTURE MARKETPLACE UP FOR SUCCESS

Although a fraud platform or model may not be in the budget at the moment, be smart about your fraud problems at this point in time. Know that as business grows, fraud grows in both volume and sophistication. To fight more sophisticated fraud in the future you'll need the infrastructure to support it, so innovate now for future scale and success.

REPUTATION FIRST

To get to the point of optimization you have to have a good reputation, good user experience, and trust in your platform. Building this reputation starts from day one and doesn't ever stop. Develop a fraud strategy that puts these things first.

GET A FRAUD EXPERT — YOU'LL NEED ONE

No matter the size or industry of marketplace you are in, you'll need to do manual reviews. Hire someone in the early stages who knows how to tackle fraud and risk, have them identify the tools you can utilize now, and lean on them to build an automated process that helps you scale to the next level. The right person will become the best fraud-fighting tool you have.

Stage 2: Grow Demand and Mature Your Systems and Tools

As brand awareness and market share grows, a startup marketplace enters a new phase. Stage 2 Marketplaces have started to gain traction when it comes to onboarding users to both the supply and the demand side. And as they do so, they're starting to realize all of the various ways fraudsters will try to game their system.

Of course, **with greater brand recognition comes increased opportunities for public relations troubles**. Trust and safety were concerns in Stage 1, but in Stage 2, a marketplace realizes how important consistency is in the trust and safety of their platform. Stage 2 Marketplaces spend more time looking at the demand-side users (screening in particular for bots and misusage), but also where platforms are most vulnerable is on the supply-side. That means more thorough merchant onboarding and vetting supplier legitimacy has increased in importance, **because every fraudulent user can cost the platform significantly in dollars and — more importantly — reputational damage.**

As a result, Stage 2 Marketplaces will quickly realize they have grown far beyond free tools for managing fraud and the user experience. Additionally, as they start to expand operations beyond initial pilot locations and programs, they see that the ad hoc fraud verification methods they were using aren't scalable across geographies. They will begin optimizing their identity verification process, and often will start hiring on additional product managers and data scientists to own **building out fraud** models and fraud detection/prevention automation.

AT A GLANCE:

Business Goals: Continue to grow user base with the right supply/demand ratio. Optimize supply and demand side onboarding and eliminate barriers to adoption. Continue to grow expert fraud team and begin to modify and replace early systems that worked in Stage 1.

Key Metric to track: Percentage of requests matched

Geofocus: Many cities in 2-3 countries. Going international adds an additional layer of complexity. Regulations by country (such as PSD2) must be thoroughly reviewed, and payment acceptance and types need to be considered. (For instance, in Latin America lots of cash-only transactions for Lyft and Uber puts drivers at risk for being mugged by bad actors.)

Risk/Fraud Concerns: Vetting demand side

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STAGE 2: FRAUD PREVENTION STRATEGY

STAGE 2 CHECKLIST:

Consider your payment strategy

With a payment strategy comes a payment fraud strategy

Don't just talk about strategy, implement the strategy

Uplevel your home-grown manual review process

Standardize, standardize, standardize

Get out there and network!

CONSIDER YOUR PAYMENT STRATEGY

If your platform has any sort of transaction involved, now is the time to consider a long-term strategy. Does this occur within your platform? (Keeps users on your site/app and gives more control, but requires more dev resources for up-keep and users may not yet trust you.) Does this happen outside your platform? (A trusted third-party vendor can do this at low latency while inspiring user confidence, but there are costs associated and you are allowing your users to go outside of the platform to transact.)

WITH A PAYMENT STRATEGY COMES A PAYMENT FRAUD STRATEGY

You cannot have one without the other. With the exchange of money, you run a high-risk business, and buyers and sellers can be easily deterred from your platform if the way you handle their money and identity is not up to their standards. Be mindful, cautious, smart, and have a strategy that goes hand-in-hand with your payment strategy

DON'T JUST TALK ABOUT STRATEGY, IMPLEMENT THE STRATEGY

Once again, a trusted advisor is essential to your business. Utilize this employee/resource to implement a fraud platform and support the payment fraud strategy. This person(s) should have a holistic view of fraud with the ability to scale your business (and team if necessary) to mitigate risk, implement tools to build rules and enable a decisioning platform, avoid false positives, and prevent fraud

UPLEVEL YOUR HOME-GROWN MANUAL REVIEW PROCESS

STAGE 2 CHECKLIST:

Consider your payment strategy

With a payment strategy comes a payment fraud strategy

Don't just talk about strategy, implement the strategy

Uplevel your home-grown manual review process

Standardize, standardize, standardize

Get out there and network!

As your marketplace grows, transaction volumes will grow beyond your team's ability to manage manual reviews. If your stage 1 marketplace utilized free tools and sources for manual review, now is the time to automate and begin documenting centralized process for manual review with a tool like Pro Insight from Ekata.

Consider:

▪ Is your manual investigation team all located in one place?

▪ Does it make sense to have this team at HQ?

▪ If this team is not at HQ, how do you support, train, engage them?

▪ (This is where an easy-to-use, easy-to-learn, centralized tool like Pro Insight comes in handy.)

▪ Is the overhead cost worth outsourcing this team to a managed service?

▪ What are the compliance issues (especially if you operate in multiple countries) with data?

STANDARDIZE, STANDARDIZE, STANDARDIZE

We cannot stress enough that now is the time to be operationally effective. Look for one tool that's consistent across your geographies, and begin to standardize the types of rules/data points you utilize. Here are a few we find to be most predictive of risk: IP addresses, line type, email first seen (when does a provider see this first in their network?)

What more can you do?

▪ Use internal data like account age — this is very likely to be predictive of risk

▪ Consider 2FA as another layer of security measure

▪ Create user funnels to expedite the process for good/repeat customers and add more friction to more risky users — without going on "autopilot mode" and increasing the risk of ATO

▪ Be cautious with blacklists. These are tempting to use but not always reliable and you've got other options — use cross validation of data points and consider velocity

▪ Purchase a fraud platform with many of these factors either out of the box or available for add-ons through vendor integrations. This will allow you to start out smaller using the platform but scale it later as you grow.

GET OUT THERE AND NETWORK!

STAGE 2 CHECKLIST:

Consider your payment strategy

With a payment strategy comes a payment fraud strategy

Don't just talk about strategy, implement the strategy

Uplevel your home-grown manual review process

Standardize, standardize, standardize

Get out there and network!

Don't have a fraud team or point-person just yet? Not to worry, because there are several events, functions, advisors, etc. to help you find the team member(s) you need to be successful

- Events like MRC, Marketplace Risk, KNOW, CNP
- Get involved with community events and don't hesitate to ask other companies how they mitigate risk. Utilize best practices of those who are already doing this well

Finding good people for your company and/or trusted advisors can be a cost reduction down the line when you've implemented a best-in-class strategy. Build these relationships early on so you're equipped to take action BEFORE you need it most.

Stage 3: Optimize, Standardize, and Scale

With increased growth and brand recognition, a Stage 3 Marketplace has reached a level of maturity and sophistication that requires standardization in processes, operations, tools and systems, as well as scalability. **Optimization is key.** These marketplaces have a high volume of users and transactions from a broad range of geographical areas. They will also face more sophisticated fraud attacks aimed at them in systemic and automated ways.

As a Stage 3 Marketplace continues to scale its organization, they are highly focused on optimizing for growth and revenue. The goal now is **to shut out increasingly sophisticated fraud attempts without creating too much friction for new and existing users.** Figuring out how to add value to their platform and compete with the additional contenders that inevitably show up in the market is critical.

Internally, a Stage 3 Marketplace will increasingly s**treamline its personnel and tools.** They need to have sophisticated fraud rules and manual reviewers, which will lead the marketplace to build a fraud model (if they haven't already) and to **establish a distinct trust and safety team to oversee user experience.**

AT A GLANCE:

Business Goals: Expand monetization, win in each market. You may be thinking about acquisition or IPO, which means improving profitability. This often requires users to pay for services that were previously free, or increasing fees. Trust and safety is critical for user retainment during these changes — you can't afford to give them a bad experience.

Key Metric to track: Lifetime value (LTV) per user

Geofocus: Many cities in many countries

Risk/Fraud Concerns: Optimizing trust and safety team and payment risk

STAGE 3: FRAUD PREVENTION STRATEGY

STAGE 3 CHECKLIST:

Implement sophisticated machine learning model(s)

Feed the beast

Keep your eye on the prize

Know your threshold

Grow your org, but keep your values the same

IMPLEMENT SOPHISTICATED MACHINE LEARNING MODEL(S)

Utilize your model(s) to help you automate

- Why do we talk about models (plural)? Because at this stage, you have, or should have, several models running for specific functions to make the user experience as clean as possible while mitigating risk and optimizing your decisioning platform and manual review.
- Find data providers who can support you in providing a great customer service by providing tools/products at a low latency, with specialized functions that solve your specific pain points and business problems.

FEED THE BEAST

Optimization and standardization is the key to succeeding as a marketplace. If you have models in place, a clean-cut payment process (if applicable), and a decisioning platform with sophisticated rules, then you should be feeding your manual review queue with what does not get caught in the models or rules engine. These models should catch users who are good AND bad, leaving your manual review to only the riskiest subset that need manual investigation. This saves time and money while keeping your good customers from being caught in the "review/delay/friction" net.

KEEP YOUR EYE ON THE PRIZE

- AUC/ROC model, know what levers to pull to make this move
- Use internal data and have a toolkit of vendors to help you achieve your goals

KNOW YOUR THRESHOLD

STAGE 3 CHECKLIST:

Implement sophisticated
machine learning model(s)

Feed the beast

Keep your eye on the prize

Know your threshold

Grow your org, but keep
your values the same

Identity threshold for risk — where are you comfortable putting good users to review and letting through fraud? More friction = more fraud you catch, but also more users who go through the review process. Use a third party to help with this balancing act.

Don't compromise making an educated decision because of time constraints. There are providers to help you make these decisions quickly.

GROW YOUR ORG, BUT KEEP YOUR VALUES THE SAME

As your entire organization grows (and, more specifically, your fraud/ trust and safety/risk teams), stay close to your values. You may have separate payment fraud and trust/safety teams. Make sure you have clear communication between them to understand what rules are firing and how models are working, because this has downstream effects on every part of the user experience. With different teams, it's also very possible you have different data and analyze different elements of identities (not to mention having different KPIs, structure, business initiatives, etc). It is important to architect a team environment where teams can easily access data and incorporate data sources to make more informed decisions based on what the entire organization knows from user behavior.

The Next Stage of Marketplace Maturity

The marketplace model is still new enough that we are seeing it evolve before our eyes. As stage 3 Marketplaces take next steps in the growth of their organizations, one thing is certain: fraudsters and other bad actors will be keeping an eye out for ways to profit.

As competition grows, trust and safety will be a key differentiator for marketplace companies. Identity verification solutions like Ekata will continue to be an important part of a robust fraud prevention strategy for preventing account sign-up fraud, promotion abuse, bots creating fake accounts, payment/transaction risk and off-line risk.