



The 2007 Retail Liability and Risk Management Conference



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THE GIFT THAT KEEPS ON TAKING: HOW RETAILERS CAN PREVENT GIFT CARD FRAUD

Gift cards have become an easy and profitable way for retailers to increase revenue. However, as gift cards become more common in the marketplace, the potential for fraud increases. This article not only provides information about how retailers can deter gift card fraud and reduce company losses, but also dispels some myths about the prevalence of gift card fraud in the retail industry.

There are three general types of gift card fraud: data theft, data planting, and check-out scams. Additional gift card fraud scams include stealing credit cards and using them to purchase prepaid gift cards. (This credit card scam recently led to six arrests and approximately \$8 million in reported losses to WAL-MART and issuing banks).

1. **Data Theft**: This type of gift card fraud involves copying data from unsold cards and using a retailer's website or 800-number to check the status of the card. When the gift cards are purchased or money added, the thieves use the data to buy goods online or to create counterfeit cards.
2. **Data Planting**: Data planting involves cloning already purchased cards and planting them in stores. When the cloned cards are activated, the money is transferred to the thief's card.
3. **Check-Out Scams**: Check-out scams are typically carried out by employees and often require insider knowledge or access. In this situation, the cashier pretends the card is empty or not activated and persuades the customer to give the cashier the "worthless" card. In another type of check-out scam, the cashier may pocket activated cards

at the register and give customers look-alike cards.

These are just a few of the methods thieves and dishonest employees use to commit gift card fraud. Nevertheless, retailers play an integral role in preventing gift card fraud and losses. Measures can be taken to prevent gift card fraud, including protecting the gift card itself; utilizing good controls at point of sale; and educating and screening employees.

Protecting the Gift Card

One of the principal ways retailers can curb gift card fraud is by protecting the security of the gift card itself by using tamper-resistant packages, encrypted magnetic strips, and scratch-off codes and numbers.

Additional methods include storing blank gift cards in an area where gift cards are more visible, and making sure employees review card stocks for missing cards.

Good Controls at Point of Sale

Because gift cards are a form of tender, the point of sale is often where fraud occurs. As a result, retailers should be particularly cognizant about the controls used at point of sale, and specifically aware of how the point of sale issues, redeems, cashes and activates gift cards. Typical problems and solutions are:

Problem 1: Allowing activation of the gift card once the card is scanned but before the transaction has been tendered and completed.

Solution: *Confirm tender.* Fraud can be avoided by confirming tender before placing value on the card. (This ensures the gift card is not purchased with a stolen credit card or bad check).

Problem 2: Post-voiding a transaction, or shutting down the register in the middle of a transaction. Dishonest employees may use either of these methods to steal activated cards from their employer.

Solutions: *Institute point of sale exception reporting.* This allows retailers to compare incoming point of sale data with an established base of data, typically developed by the loss prevention team. This assists the retailer in identifying transactions that might indicate fraud or loss.

Implement a *thorough employee screening process.*

By protecting the gift card and implementing good controls at point of sale, retailers are taking necessary steps in protecting themselves from gift card fraud.

Educate and Screen Employees

Retailers should also educate their employees about gift card fraud and implement proper screening mechanisms to weed out thieving employees. Popular screening measures identified in the recent Retail Security Survey, described below, include verification of past employment history, criminal conviction checks, and multiple interviews. Further screening measures include checking personal references, drug testing, and credit history checks.

The Reality of Gift Card Fraud

Although gift card fraud should be a concern to retailers, the reality is that losses due to gift card fraud actually represent a small percentage of overall losses. In 2005, the University of Florida conducted a National Retail Security Survey, which was sponsored by the National Retail Federation the ASIS Foundation, Tyco, ADT, and Stored Value Systems, and included 156 responding retail chains representing 30 different retail markets, including discount stores; men's and women's apparel retailers; supermarkets and grocery stores; home centers, hardware, and lumber stores. The participating retail chains ranged from very small, one-company stores, to very large, 7,700 company stores with multi-billion dollar sales.

The survey found that gift card sales are on the rise, with average gift card sales over \$100 million in 2005. The survey also tracked company losses due to gift card fraud. According to the 75 responding retailers, an average total of \$72,900.74 is lost each year to gift card fraud.

The survey revealed that gift card losses are significantly higher among the 60 percent of retailers whose gift cards can have value added to them after the initial purchase. Consequently, the average losses for addable value v. one-time use gift cards are \$99,238.66 vs. \$25,245.81, respectively. Retailers estimate that 62 percent of gift card losses are attributable to dishonest employees; 13 percent to counterfeit or skimmed cards; and 13 percent to stolen cards. This survey demonstrates that gift card fraud constitutes a small portion of company losses. Nonetheless, retailers should still be aware of the various types of gift card fraud and the best ways to prevent these types of company losses.

The reality is that as gift cards become more popular, there is a greater potential for fraud. Retailers play a large role in the whole process and can actively deter gift card fraud and dramatically reduce associated company losses by adopting certain measures, such as gift card protection, good controls at point of sale, and screening and educating employees.