



# COST OF FRAUD

## WHICH IS RIGHT FOR YOUR BUSINESS?

Most business leaders understand the threat of fraud to their organization, but how many comprehend the total cost of fraud (TCOF) and how it effects their balance sheets. **Fortaris Capital Advisors** applies years of expert level, fraud investigations to assess present and potential fraudulent risks and determine your company's total liability due to fraud.

Business leaders need to understand what TCOF is and how to get other stakeholders to understand the impact on the areas of the organization. Fraud can affect so many different areas of a business, it is critical to fully understand the total costs.

Industry research from LexisNexis Risk Solutions, "2019 True Cost of Fraud Study: E-commerce/Retail Edition", explains for every dollar of fraud committed in the United States retailers incur \$3.13 of costs. That is an increase of 6.5% from 2018.

According the LexisNexis Fraud Multiplier, the total amount of losses to a merchant incurs based on the actual dollar value of a fraudulent transaction. Fraud costs encompass dispute costs, fees, merchandise redistribution, labor, legal prosecution and IT/software security.

The increase in mobile shopping is contributing to the growth of fraud in the industry. Key Challenges retailers face with mobile commerce are verifying identities of cardholders; determining the source of the transaction when conducting international transactions, differentiating between real customers and bots, and finding an acceptable balance between preventing fraud and creating too much friction for consumers. With the COVID-19 crisis, it is believed the impact will significantly increase over the next few months as more and more people utilize mobile shopping. 47% of the organizations in the survey had experienced fraud in the last 6 months. The most common types of fraud were customer 1. Customer fraud, 2. Cyber-crime, 3. Asset misappropriation. There was an even split of fraud committed by internal and external actors. The total cost of these frauds was \$42 billion in 2019.

**Fortaris Capital Advisors** can help you create a Payment Fraud Detection Strategy. Fortaris will calculate the total cost of fraud and share this information with the stakeholders across the organization. We take a holistic view of all costs associated with fraud; we align this with your organizational goals to determine your tolerable fraud rates. To build a fraud detection strategy, the business must first quantify how much fraud is costing the business. Cost components in the fraud losses and tools and headcount categories should be able to be quantified to a reasonably accurate degree, some assumptions will need to be calculated to estimate the customer lifetime value.

This exercise will lead to informed discussions about how much to invest in detecting and preventing fraud, and how best align a fraud strategy to meet your business goals. Our patented fraud model measures the total cost verse fraud losses plus the tools and headcount needed to combat fraud, plus the impact on customer lifetime values. Our goal is to maximize profits or revenue while reducing fraud exposure and minimize the total cost of fraud to your business. There is an "optimal zone" where a degree of fraud can be acceptable with a view toward minimizing the TCOF for the business, and thus aligning with your organizational goals to maximize profits or revenue.

Understanding the TCOF is an exercise every business leader should be concerned with. We suggest business leaders consider this exercise as an investment not a cost, with an inherent return, in the form or mitigation or elimination of fraud. Call today to arrange a consultation.



## FORTARIS CAPITAL ADVISORS

Fortaris Capital Advisors delivers over 50 years of leadership expertise with a proven track record of implementing innovative solutions to improve profitability, mitigate risks and maximize stakeholder value.

The Fortaris team is expert in their field providing corporate security, fraud investigation, cyber-security and financial management solutions for companies of all sizes, across numerous industries. From start-ups to mature companies facing restructuring, the team brings the know-how and tools needed to safeguard and protect against the menacing threats to business continuity in today's evolving global marketplace.

Fortaris Capital Advisors is a fully licensed and insured advisory and private investigation firm.

To learn more about our services, visit us online. To arrange a consultation, contact our team of professionals. You will receive a response within 24 hours.

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