



FRAUD-FIGHTING COMMUNITY LAUNCHES IN US

Subscribers share information about fraudulent online transactions in online service

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A European service where member businesses share intelligence about fraudulent transactions and other unwanted online activity they encounter has quietly expanded to the U.S.

Ethoca, which has offices in Dublin, Ireland, and Toronto, Canada, is a community-based collaborative service for online businesses in retail, gaming, airline, payment processing, prepaid card providers, travel and leisure, and dating services. One of Ethoca's biggest customers is the Royal Bank of Scotland, and former U.S. Secretary of Homeland Security Tom Ridge is a member of its board of directors.

Member companies submit their transaction data to Ethoca, which acts as a clearinghouse and fraud assessment hub for all members -- they basically get to vet a suspicious online order (address, phone number, credit card, IP address, and buyer name) with the experience of other members. "It's like how a credit bureau works," says Andre Edelbrock, Ethoca's president and CEO, who calls the firm a fraud management services provider.

A member would be able to determine if a certain credit card account or email was associated with a fraudulent transaction or had been bounced by other merchants and why, for instance. "This is all done in a way that's not a competitive threat... they are getting access to the experiences of other members, but not to their customers," Edelbrock says.

But a previous effort to set up a collaborative fraud prevention community in the U.S. never got off the ground. Edelbrock says a group of merchants, as part of a Merchant Risk Council initiative, attempted to set up a similar online community, but couldn't get enough participation. But he expects Ethoca's centralized, global community model of 30 businesses -- as well as some additional big-name customers it soon will name -- to be attractive to U.S. firms.

Online collaboration to thwart threats has become a popular way to try to keep pace with the bad guys. Aside from anti-spam communities such as PhishTank, security vendors have been teaming up in other areas of online threats. "Companies like Cybersource and ID Analytics are also doing this on the identity side. RSA and VeriSign are doing this on the transaction side," says Jonathan Penn, vice president and research director for security and risk management at Forrester Research.

Ethoca adds risk assessments to the mix so the member gets a scored recommendation on whether or not to reject the suspicious transaction. Members by default don't know who is supplying what information, but the fraud instances are identified by industry sector, for instance, according to Edelbrock.

Marc Maiffret, founder and CEO of Invenio Security, says sharing transactional data is tricky. "It is one thing to share threats, but it becomes very complicated and not necessarily exponentially

beneficial to share transaction data. There are going to be implications with privacy, competitive complexities of rivalries not wanting to share data, and even potential scalability problems for some organizations' infrastructure," he says.

"At the end of the day, even if it could be a perfect solution, it is still a Band-Aid to try to stop fraud as it is happening -- rather than preventing fraud in the first place by consumers and companies doing more to protect their data," Maiffred says. "That being said, people do stock up on Band-Aids."

While Edelbrock admits there are inherent security risks for an organization to share its transactional data, he says Ethoca has built a secure architecture to protect its members. "From day one, we've addressed the concern of security of the data... with hashing, encryption, and a secure environment," he says. Ethoca also undergoes various audits -- from Pricewaterhouse Coopers, for instance.

Forrester's Penn says intelligence-based solutions such as Ethoca's are a key element in the evolution of security. "And development of online communities is a fantastic way to leverage some of the new technologies to facilitate such solutions," Penn says.

Ethoca charges a monthly membership fee of anywhere from \$500 to \$30,000 a month, depending on the size of the organization.