

Gift Cards: The hidden risks

While gift cards may be a safe bet for the hard-to-please teenager, the picky friend, and the relative who seems to have ‘everything’, they are far from safe from abuse. This staple gift is a prime target of retail fraud.

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Gift cards appeal to consumers and retailers alike. Gift cards offer all the choice of receiving cash with the added layer of personal thought. For the gift giver, they're easily purchasable online. For retailers, there are benefits too. Gift cards provide instant capital that businesses may make use of. However, what was once a win-win situation is now facing a growing challenge because of fraud risks. As the popularity of gift cards increases, so does the risk of abuse associated with them.

Digital gift cards in particular can be a particular risk for businesses, given both their immediacy and difficulty to trace. Whilst any surge in sales is a good thing, could the increase in digital gift card purchases be putting retailers at risk?

Gift card fraud is fast becoming one of the biggest threats to retailers. There are two primary reasons for this. First, gift cards provide anonymity and irreversibility. No personal details are needed to use a gift card, and once stolen and used, recovering funds is nearly impossible. Second, online gift cards have their own rules when used as a payment method. They are available instantly and offer an anonymous payment method, meaning fraudsters bypass typical scammer stumbling blocks like identity verification or checking delivery addresses with bank information.

Sorting legitimate from illegitimate purchases is particularly challenging, especially given the immediacy with which gift cards may be bought and activated. High-value transactions are a top target for gift card fraud, with cards over £200 (~\$250) the most popular target for fraud. Unsurprisingly, older consumers are among the most vulnerable.

While consumers can play a role in avoiding scams, the responsibility should lie with retailers to combat gift card fraud and protect their business and their customers. Here are some vital strategies:

Adopt advanced fraud detection technology. Invest in tools that are capable of real-time fraud detection. Unlike physical goods, digital gift cards leave fewer data points, making traditional fraud systems less effective. More sophisticated systems combine periphery digital insights to understand identities behind transactions and adapt to changing fraud habits in real time to mitigate risks.



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Strengthen internal monitoring systems. Gift card purchases are traditionally not scrutinised as highly as other payment methods. Machine-learning-powered platforms can help spot unusual purchase patterns in real-time, such as bulk orders of high-value gift cards, preventing large-scale fraudulent activities from slipping under the radar.

Act quickly on chargebacks. Gift card-related chargebacks can appear in half the time of physical goods, making them even more painful to detect and stop before they have caused significant damage. The seasonality of gift cards, and therefore chargebacks, also makes it more challenging for retailers. Scammers knowingly take advantage of the busy periods when retailers are overwhelmed. Here again, technology is helping to take the strain of managing chargebacks, automating manual processes. This, in turn, enables fraud teams to be more productive and focus on higher-skill detective and analytical work.

From holiday gift-buying to scrambling for birthday presents, the rush to complete gift shopping can overshadow the potential fraud risks of popular presents like gift cards. With awareness and proactive action, consumers and retailers alike can protect themselves from the surge of gift card fraud.