

E-Commerce Frauds Using Parallel Imports

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Abstract

In this paper, we will discuss about the frauds in e-commerce, which uses the concept of parallel imports. We will discuss how the import duties are being bypassed on an international level, resulting in the loss of millions and billions of dollars to government. This may be regarded as the dark side of E-Commerce. Millions and billions worth of import duties and taxes are being bypassed illegally and no one has any clue about it. Paper is organized in V different Sections.

Keywords: E-Commerce; Fraud; Money; Import Duty; International; Government

I. Introduction

In today's world, e-commerce is one of the biggest businesses which has grown rapidly. Currently there are more than a million e-commerce websites making billions of dollars but with great success comes even greater risks and frauds. E-Commerce fraud is defined as a method to obtain money or something valuable by deceiving someone. Many people try different methodologies to dupe the e-commerce websites and many of them remain uncaught. Frauds may be of different types, for example, credit card frauds, phishing etcetera. But there is a new kind of fraud going on under the cover which has not been noticed yet. In this fraud, people order stuff from international e-commerce websites and the goods are delivered using the concept of parallel imports. In this, seller brings goods along with them or imports them from abroad for the customers via routes which are illegal. And here's the tricky part. Some goods/items are liable for the government import duties and taxes. For example, when you order an automobile part, you have to pay

x% import duty on that but since the order is brought by some agent in his/her check-in luggage, the import duties are bypassed [1]. Government allows people to bring goods along with them for their personal use but if someone uses this freedom for illegal usage then that's a crime. Due to this fraud, the governments are losing millions and billions of dollars in form of taxes and duties. Also the grey market goods which are imported in India use the parallel imports concept. Parallel imports are illegal in India. People buy the goods at lower prices that they want to import via this method, stuff them in their luggage and bring them to India. These goods can be of any type. These are then sold here at prices lower than the original price in the local market. The tricky part is that these goods are mostly duplicate so are available at cheaper prices. Cheaper rates mean less or no import duties. Thus evading the taxes. Also if the custom officer assesses the value of goods more than their real value is, then you will have to pay import duty according to the assessed value [2].

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II. Literature Survey

It was in [3] 1971 that the foundation of E-Commerce was laid. Cannabis was sold to students using ARPANET. In the late 70's and 80's, a lot of development was done. In 1995, a person named Jeff Bezos created the first commercial online E-Commerce portal called Amazon.com. Suddenly there was a flood of online market places such as eBay, IndiaMART, AliBaba.com etcetera but then started the frauds in E-Commerce. Every year, many frauds in E-Commerce come into sight. Many people get caught. For example: [4] Recently in India, a website named Timtara.com



Fig. 1: E-Commerce Fraud Types [1].

was found out to be a fraud website where the owners duped the customers for 12 lakh rupees [5]. Also some frauds came into light where a delivery guy tried to cheat the customers by replacing the original item with stones. In 2015, Flipkart, an Indian E-Commerce giant lost approximately 50-60 lakh Rupees in a new kind of fraud where people convinced the website that duplicate items were being shipped instead of the original items. In United Kingdom, the losses due to E-Commerce frauds alone counted up to approximately £217.4 million, which accounted for 45% of all card fraud and 66% of total remote purchase fraud. Here are the details of the losses due to E-Commerce frauds from 2004-2014 in United Kingdom[6]. This clearly shows how the E-Commerce

frauds have increased in United Kingdom and the same way it is happening in the rest of the world. People around the world are getting motivated by real world to innovate new methods of fraud and the governments are struggling to find methods to stop them. The latest type of fraud which we have researched about is still operating under the hood. In this, the governments are losing huge amounts of money and very less people are aware about it. According to a new study conducted by ACI Worldwide, the increase in E-Commerce activity between Black Friday and December 31 contributed to the highest fraudulent rates are Indonesia with 35% of its E-Commerce transactions being fraudulent; Venezuela having 33%; South Africa having 25%; Brazil having 11%; and Romania having



Fig. 2: Fraud Losses on UK - Issued Cards

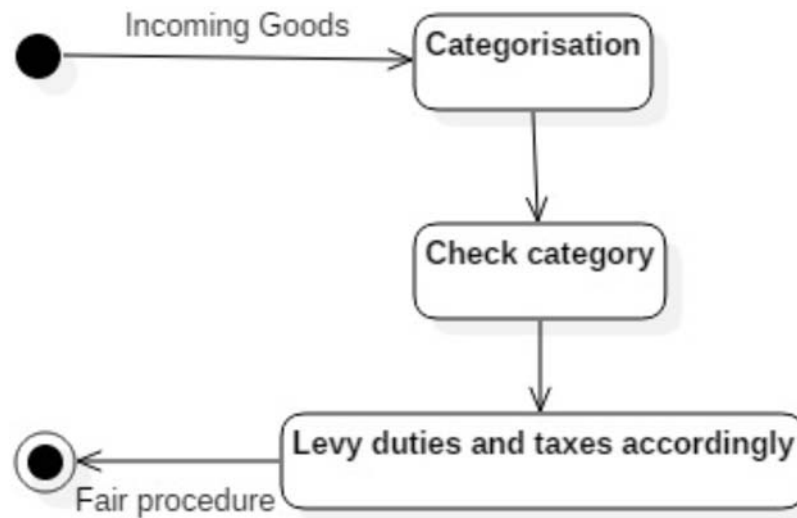


Fig. 3: Proposed E-Commerce Transaction verification

10%. On the flip side, the report ranks Denmark, New Zealand, Finland, Norway and Switzerland as the least-fraudulent countries. Other findings show that Europe's fraud rate is slightly lower than the global average. Asia's fraud rate is similar to the global average. Africa's fraud rate is as much as 10 times higher than the global average. South America has a fraud rate three times higher than the world average. So according to the above correlative rise in fraud attempts, peaking on Christmas Eve. Although E-Commerce sales increased by 21 percent, the 2015 holiday shopping season saw 8 percent more fraud attempts, as compared to 2014.

According to a survey conducted for CyberSource by Mindwave Research of 312 online retail companies in the United States and Canada, in 2007, the losses due to E-Commerce frauds was \$3.7 billion, \$4.0 billion in 2008, \$2.7 billion in 2010, \$3.4 billion in 2011 and \$3.5 billion in 2012 [7]. According to a research by fraud prevention technology provider Forter, which compiled the report, the top 5 countries which have stated facts, we notice that e-commerce frauds using the concept of parallel imports are on a rise now and till now no measures or steps have been taken to reduce this type of fraud. Below we have suggested some measures to stop this kind of fraud.

III. Proposed Technology

To prevent this kind of fraud, governments should take steps. The government can make changes in their import duty norms. Whenever an international courier

is received, a thorough checking process should be done. Moreover, what we can do is that we can create different categories for different commodities so that any person sending a courier will mention under what category the thing lies. It is described with the help of a diagram.

With the help of this, the governments can gradually start obtaining the import duties and taxes. Also, in the customs department of the airport, people with luggage that looks suspicious, should undergo thorough checking so that those who carry parcels/shipments in their luggage to evade the taxes and import duties can be caught. The people who are caught should be penalised heavily so as to prevent this evading of taxes in the future.

IV. Advantage

The advantage of this research is that it will help the countries and their governments to earn the money through taxes and import duties which is their right. Moreover frauds can be stopped in the field of E-Commerce and people and governments will not get cheated again. It will create transparency among the governments, E-Commerce websites and the people who purchase goods from these sites. Whenever a person will purchase goods internationally, he or she will have to pay the amount which will eventually include all the taxes and duties. This way the government, the seller, the buyer and the website all will be safe from fraud.

V. Conclusion

Thus to conclude in the end, we have found a new kind of fraud going on under the covers that needs to be exposed so that everyone can get to know about it. This industry of E-Commerce is growing rapidly and if these kinds of frauds can be stopped then the governments can earn their share. If it is not stopped, then it will become a global issue in the future.

VI. Future Scope

More research can be done on this front such as more techniques can be designed to stop/avoid these kinds of frauds in the coming future. Moreover better import policies and custom policies can be implemented which will not allow the bypassing of the goods or people bringing surplus amounts under the tag of allowed value of goods so that no one can leave customs without paying the import duties.

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