GIFT CARD MILLIONAIRES

How duly registered businesses make millions purchasing and flipping fraudulently acquired gift cards

Cyber Fraud Intelligence Report

July 2019
Gift cards are prepaid debit cards loaded with funds for use at a particular store or any merchant that accepts specific card brands. Examples of gift cards that are almost universally accepted are Visa and Mastercard prepaid cards while other types of gift cards are essentially prepaid store cards that are, with some exceptions, only accepted by the store whose brand they carry. Examples of these are iTunes, Best Buy, Target, Walmart, Netflix, Amazon and so forth.

The use case for gift cards is simple and straightforward: the giver purchases and sends a physical or virtual gift card to a receiver mostly when the latter is celebrating a special occasion. Gift cards take the pain of thinking about what the beneficiary might like away. For instance, if a benefactor knows where a beneficiary typically shops, all he or she needs to do is present that store’s gift card thus putting the beneficiary in control of what to buy.

According to MarketWatch, the international market for gift cards is likely to grow from $318 billion in 2017 to $506 billion in 2025. This rise in popularity has not gone unnoticed by cyber criminals who have figured out several fraudulent means of profiting from illegally acquired gift cards. The US Federal Trade Commission’s (FTC) Consumer Protection unit has several publications on how scammers demand gift cards from unsuspecting US citizens. In 1 out of every 4 fraud reports reported to the FTC between January and September of 2018, gift card was reported as the method of payment. Scammers find this method of payment attractive because the transactions are quite hard to tie to specific individuals.
The Market of Stolen Gift Cards

Gift cards are a valuable currency to cyber fraudsters. Once a gift card is illegally obtained, they head straight to online platforms where they can anonymously exchange it for crypto money, which can then be converted to real money. Most of these exchange platforms, which would not be mentioned in this report, are popular brands that are well-known to cyber fraudsters.

Business is Booming in Nigeria

In Nigeria, there is a growing list of duly registered businesses offering to pay—in local currency—for foreign gift cards. Solicitations are typically made on social media platforms, discussion forums and national newspapers. In the course of our research into abuse and misuse of gift cards, we came across tens of such Nigerian businesses and individuals who boast of making in excess of $100,000 (or N36 million) a year buying and selling gift cards. The most popular gift cards for this purpose are iTunes, Google Play, Amazon and Steam.

Going from $1000 to $200,000 in 12 Months

On closer analysis, we found that an exponential growth in the working capital of an illegal gift card merchant is very possible. An analysis is presented below:

Assumptions

- Conversion rate: $1 = N360
- Initial investment of $1,000
- Merchant trades in iTunes and Google Play gift cards
- $100 iTunes gift card is purchased for $50 and sold for $65
- Merchant works 240 days in a year
- Merchant’s maximum daily spend is $2,856
INITIAL INVESTMENT = $1,000 (₦360,000)

1. DAY 1
   Day Working Capital = $1,000
   Expenses (E) (cost of purchase at 80% of face values) $1,000
   Received Value (RV) (face value of purchased gift cards) $2,000
   Revenue (R) (gift cards sold at 60% of face value) $1,300
   Profit (P) (on Day 1) $300
   Profit till Date (sum of all profits to date) $300

2. DAY 2
   Day Working Capital = $1,300
   Expenses (E) (cost of purchase at 80% of face values) $1,300
   Received Value (RV) (face value of purchased gift cards) $2,400
   Revenue (R) (gift cards sold at 60% of face value) $1,900
   Profit (on Day 2) $500
   Profit till Date (sum of all profits to date) $800

3. DAY 3
   Day 3 Working Capital = $1,690
   (Initial investment plus earnings)
   Expenses (E) (cost of purchase at 80% of face values) $1,690
   Received Value (RV) (face value of purchased gift cards) $3,380
   Revenue (R) (gift cards sold at 60% of face value) $2,197
   Profit (on Day 3) $507
   Profit till Date (sum of all profits to date) $1,197

4. DAY 4
   Day 4 Working Capital = $2,197
   (Initial investment plus earnings)
   Expenses (E) (cost of purchase at 80% of face values) $2,197
   Received Value (RV) (face value of purchased gift cards) $4,394
   Revenue (R) (gift cards sold at 60% of face value) $2,856
   Profit (on Day 4) $659
   Profit till Date (sum of all profits to date) $1,856

5. DAY 5
   Day 5 Working Capital = $2,856
   (Initial investment plus earnings)
   Expenses (E) (cost of purchase at 80% of face values) $2,856
   Received Value (RV) (face value of purchased gift cards) $5,712
   Revenue (R) (gift cards sold at 60% of face value) $3,713
   Profit (on Day 5) $857
   Profit till Date (sum of all profits to date) $2,713

6. DAY 6
   New Working Capital = $2,856
   Expenses (E) (cost of purchase at 80% of face values) $2,856
   Received Value (RV) (face value of purchased gift cards) $5,712
   Revenue (R) (gift cards sold at 60% of face value) $3,713
   Profit (on Day 6) $857
   Profit till Date (sum of all profits to date) $3,570

360. DAY 240
   New Working Capital = $2,856
   Expenses (E) (cost of purchase at 80% of face values) $2,856
   Received Value (RV) (face value of purchased gift cards) $5,712
   Revenue (R) (gift cards sold at 60% of face value) $3,713
   Daily Profit (on Day 240) $857
   Profit till Date (sum of all profits to date) $204,108

TOTAL PROFIT IN 240 DAYS = $204,108 (₦73,478,8800)
Legal, but Illegal

The foregoing illustration shows just how lucrative illegal gift card business can be. Given that they don’t determine where their suppliers get the gift cards from, individuals and businesses trading foreign gift cards in Nigeria would argue that they’re not doing anything wrong. On the face of it, they’re not. The reality, however, is that they aid and abet gift card fraud, as fraudsters know that there’s always a ready market for their illegally acquired gift cards.

Over the last 2 years, a lot of small businesses who specialize in purchasing gift cards and turning them to cash, have been emerging in Nigeria. It is quite ironic that one of their key selling points is the fact that they’re duly registered to do business in Nigeria by the Corporate Affairs Commission (CAC), which is the body that regulates formation and management of businesses in Nigeria. Another selling point is their ability to confidently advertise their business via every popular medium used by legitimate businesses. What’s more, this means that they can always enlist the help of the Economic and Financial Crimes Commission (EFCC) in the event they somehow get defrauded by any of their business partners.

This illustration shows that by trading with N 1m, an individual or a small business can realistically earn N 71m within a year whilst having a strong case for doing a legitimate business. It must be mentioned that a primary success criterion is the availability of goods (i.e. gift cards), and the fact that there is constant solicitation for different types of US gift cards on discussion forums, news and social media, and closed instant messaging groups is an indication that these gift cards are in short supply. In another non-public cyber fraud intelligence report, we detail the different means by which criminals typically acquire popular gift cards. There’s no stopping individuals and businesses who have mastered the act of acquiring gift cards directly from their sources although that would nullify their claim of legitimacy.

This scheme, which is rapidly growing in popularity, is surely a hard nut to crack for the Nigerian government who is currently struggling to deal with cyber fraud schemes that are clearly not grey.
Gifts Cards at 50%

Popular gift cards for sale at 50% of face value on a closed group monitored by DIGISS

Lyft Gift Cards

Lyft gift cards for sale at discounted prices on a closed group monitored by DIGISS

Gift Card Solicitation

Solicitation for popular gift cards on a closed group monitored by DIGISS

Gift Cards with Pin

Popular gift cards with pin for sale at 50% of face value

More Popular Gift Cards

Another advertisement for gift cards for sale at discounted prices.
ABOUT DIGISS

DIGISS is dedicated to tackling everyday cyber security challenges. Through continuous understanding of the evolving tactics and techniques of cyber adversaries, we’re able to implement effective countermeasures that are designed to significantly thwart their efforts.

Our business-aligned cyber security consulting and fraud intelligence services are guaranteed to provide measurable value to any organization that relies on us for a solution to their seemingly complex cyber-related challenges.

Learn more: www.digissllc.com