

Case Study: Fraugster

Insurance backed chargeback guarantee



The case

Fraugster, a Berlin-based artificial intelligence (AI) technology company, has partnered with Munich Re to complement its credit card fraud-prevention software with an innovative risk-transfer solution. The result is unique to the market.

The challenge

Fraugster uses AI to replicate the thought processes used by human analysts – but it is much more efficient and makes far fewer errors. Fraugster's clients can significantly reduce the number of fraudulent e-commerce transactions and chargebacks when using this advanced technology.

As the technology is extremely sophisticated, it is difficult for Fraugster's clients to fully understand and assess the technology's ultimate performance in production. So, having a third party to evaluate and guarantee the performance of the AI software minimises potential uncertainties on the part of Fraugster's clients.

The solution

Munich Re's data scientists carried out a thorough due diligence of Fraugster's AI software. Based on the positive outcome of that analysis, it is possible to offer an insurance-backed performance guarantee that complements Fraugster's AI. So, whatever happens, Fraugster's clients have a guaranteed performance level of the AI.

Specifically, under the performance guarantee Fraugster would offer compensation for AI underperformance as illustrated by a higher-than-expected chargeback rate. In a next step, Great Lakes Insurance SE, a primary insurance company that is part of Munich Re Group, indemnifies these payments via an insurance policy.

The advantages of the insurance-backed performance guarantee for Fraugster and its clients can be summed up as follows:

- Fraugster has a new product feature: trust
- Fraugster's sales and client trust are reinforced by the unique market differentiator
- Shortened proof-of-concept and pilot phases (or maybe not even required)
- Reduced costs for AI product testing and quality checks for Fraugster's clients

Profile Munich Re

Munich Re is one of the world's leading providers of reinsurance, primary insurance and insurance-related risk solutions. Since it was founded in 1880, Munich Re has been known for its unrivalled risk-related expertise and its sound financial position. It offers customers financial protection when faced with exceptional levels of damage. Munich Re possesses outstanding innovative strength. The company is playing a key role in driving forward the digital transformation of the insurance industry, and in doing so has further expanded its ability to assess risks and the range of services that it offers. The insurance for Spectrum Labs is underwritten by a primary insurance carrier of Munich Re Group, which is an S&P AA-rated international insurance company, eligible to write surplus lines insurance in all US states. The Policy is subject to exclusions, deductibles, and a policy limit.

Profile Fraugster

Fraugster is a payment data analytics company that has developed proprietary AI technology that helps online merchants to maximise revenues while reducing operational costs. Fraugster's main focus is fraud prevention, and its clients operate in industries such as retail, travel, and gaming.

Contacts

The Insure AI team works with AI start-ups and corporates on structuring insurance backed performance guarantees to provide financial certainty for our partner's clients. You can contact us here:



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