

# Risk and Risk management in Cross Border E-commerce

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**Yoon Lee**

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## Sharp increase of Cross Border E-commerce(CBEC)

- The number of people having access to the Internet is growing exponentially.
- Information and Communication Technologies (ICT) are continuously providing new business and consumer opportunities.
- E-commerce is increasingly becoming the platform that businesses use to access global markets when starting up.
- Motivated by the diversity of offerings and price advantage, over half of online buyers worldwide already make purchases across country borders

<Global Trade and E-commerce Volume>

(Unit: Billion USD, %)

	2014	2015	2016	2017	2018	Annual Growth
Global Trade	21,859	22,421	22,839	23,501	24,253	2.6
E-Commerce	1,471	1,548	1,915	2,352	2,860	18.1
Cross Border E-commerce	233	304	400	530	676	30.5

Source: Office of Korean Customs Administration

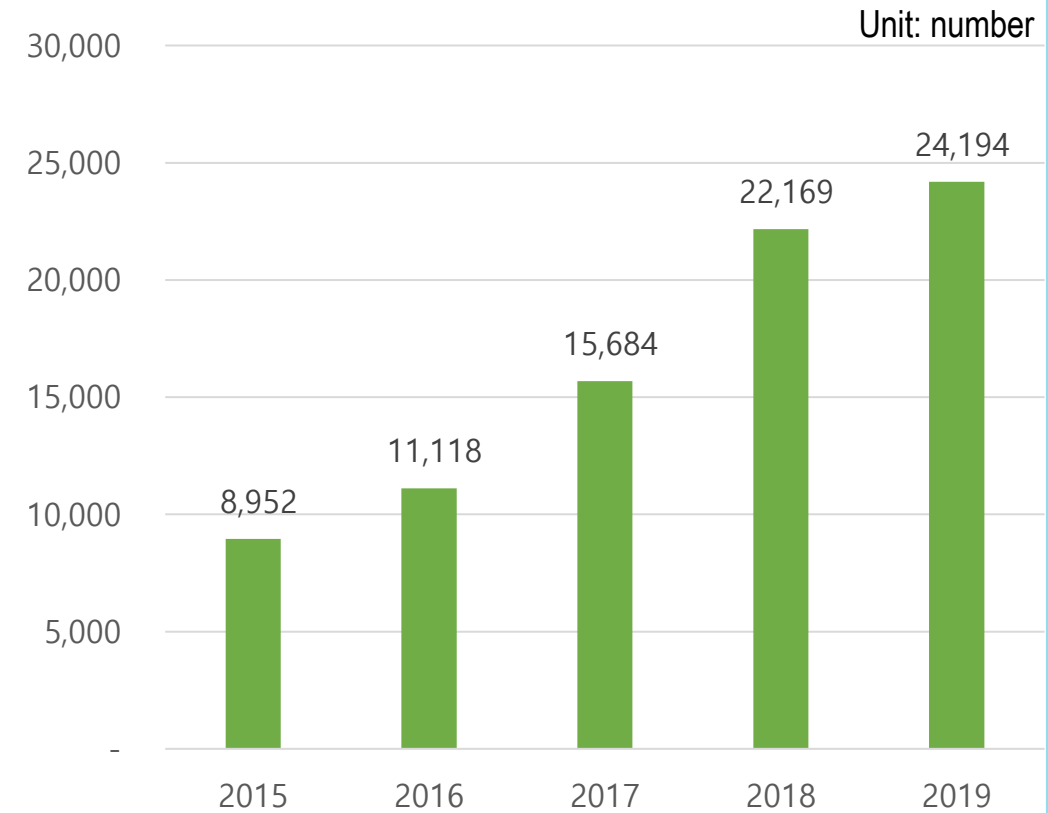
## Increasing claims and disputes in CBEC

- Frequency of dispute is continuously rising as the volume of CBEC increases.
- 21.6% of Korean who have used CBEC experienced damage from the global seller.

## Obstacles for dispute resolution in CBEC

- Domestic e-commerce laws have limits on regulating the sellers or consumers in a foreign country
- There are no proper international laws or norms for cross-border e-commerce.
- Disputes are not easily resolved due to differences in language, legal systems, and commercial customs.
- Cost of traditional dispute resolution methods (mediation, arbitration, litigation) are higher than the expected remedy/

### <Consumer Claims on CBEC>



Source: Korea Consumer Agency

## What kind of risks exists in CBEC?

- Considering cost and time for dispute resolution in CBEC, risk management would be needed to minimize damages.
- Risk recognition in CBEC is essential step for further development of risk management.
- Providing information related to risks in CBEC to the consumers will help them to avoid risky transaction.
  - Collecting claim cases from Korea Consumer Agency → Categorizing risk types

## How can we manage the risks in CBEC?

- Finding ways to minimize risks in CBEC: Avoidance, Loss control, risk transfer
  - Checking refund & change policies in e-market place or sellers
  - Using Internal dispute resolution service or escrow system in e-market place
  - Payment by credit card with charge back service
  - CBEC insurance

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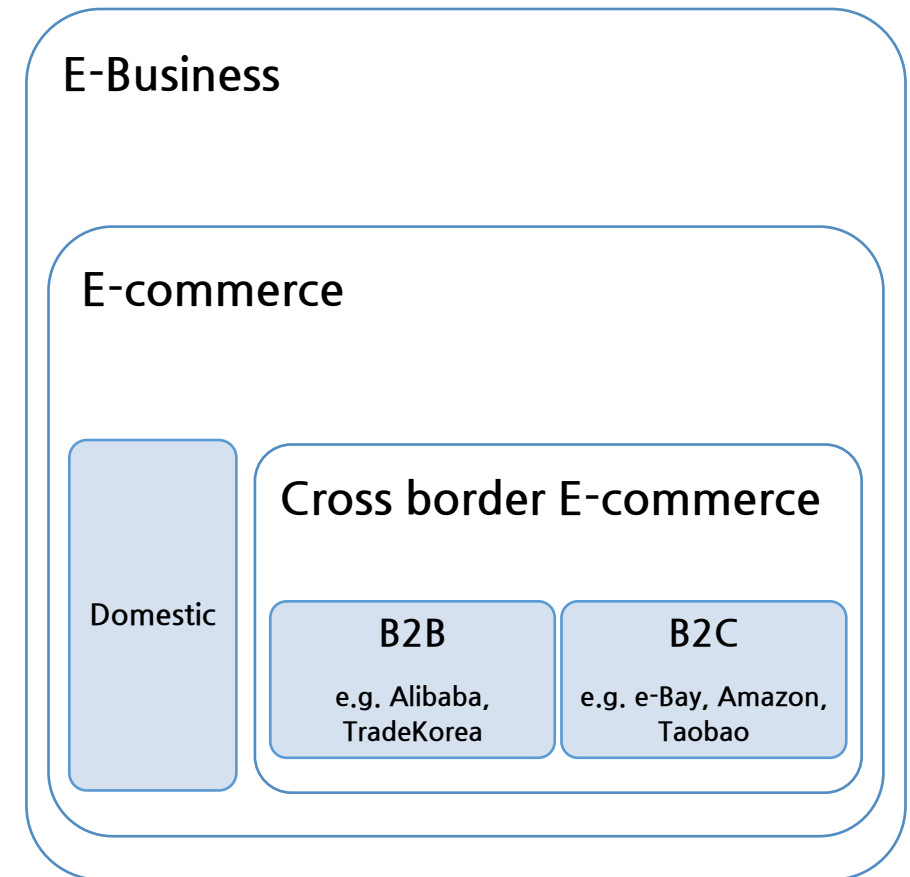
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## The definition of CBEC

- Electronic commerce between consumers and businesses with nationality other than the country in which they reside.
- Essential elements of CBEC: (1) Online transaction, (2) Cross-border transaction/shipment

## Key characteristics of CBEC transactions

- Time-sensitive goods flow
- High volumes of small packages
- Participation of unknown players
- Return/refund processes required



## Export to the China, Import from USA, EU

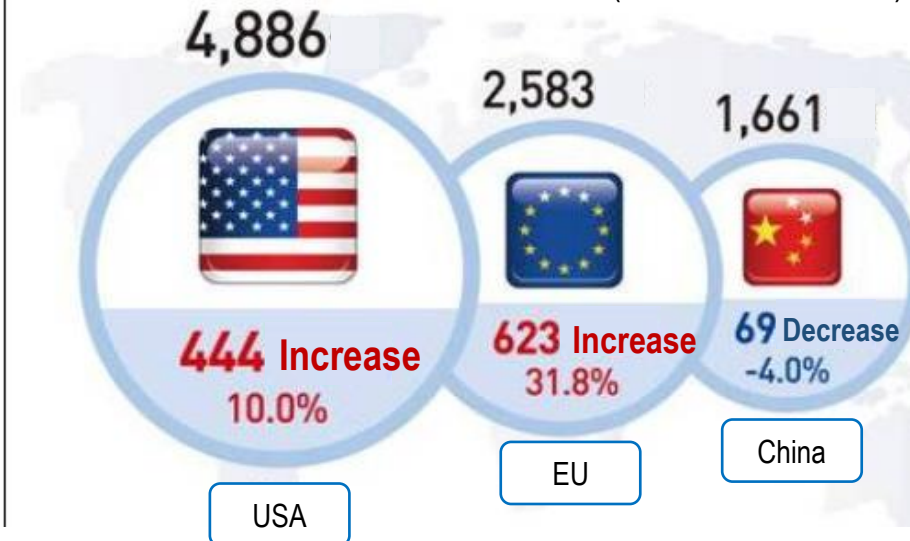
- CBEC export: 3,252 mil USD, 338 USD per transaction (2018)
  - CBEC export to China charges more than 89% of total CBEC export
- CBEC import: 2,755 mil USD, 85 USD per transaction (2018)
  - CBEC import are mainly from the United States and the EU

<CBEC Export in 2019 4Q>



<CBEC Import in 2019 4Q >

(Unit:100 million won)

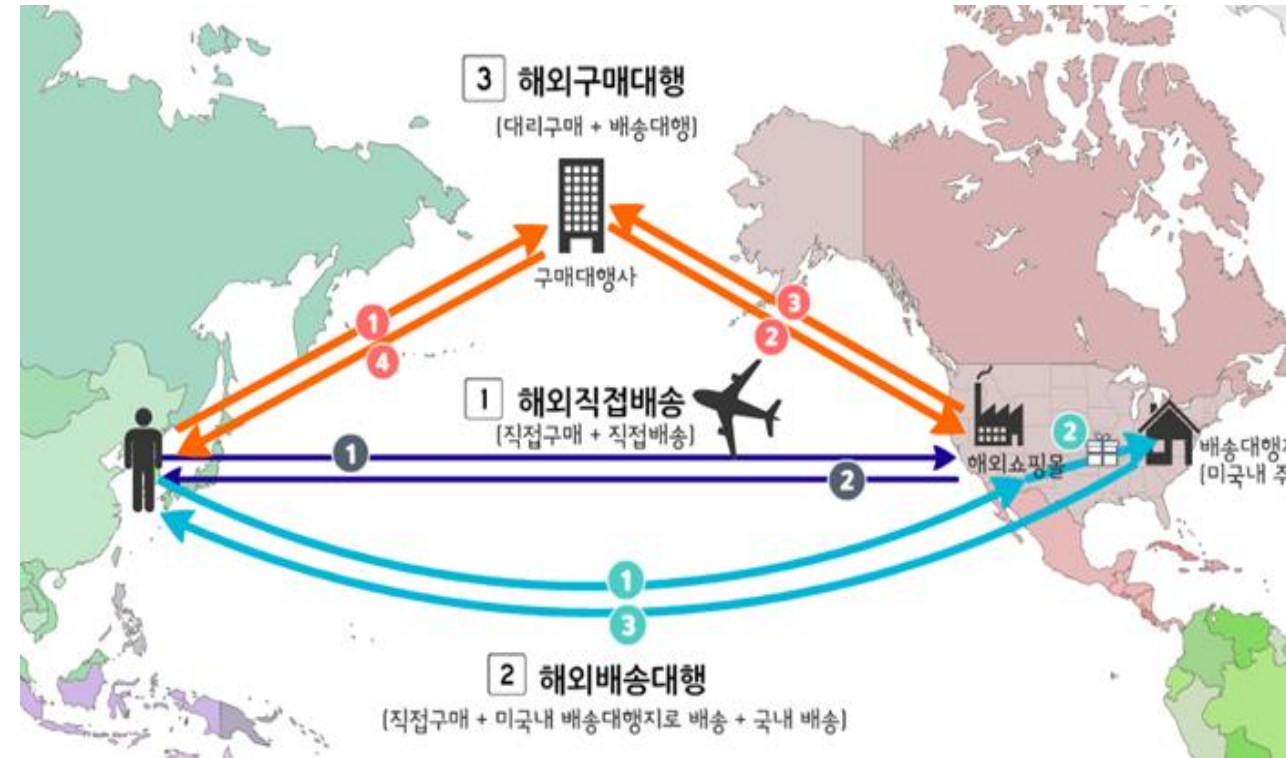


Source: Office of Korean Customs Administration



### Three types of CBEC import in Korea

1. Direct overseas purchase: direct purchase of products from overseas internet shopping malls and direct delivery to Korea
  - Purchase and delivery procedures are similar to domestic e-commerce except import clearance.
2. Overseas Shipping Agents: Products that are difficult to receive directly to Korea are shipped via overseas shipping agencies to Korea.
  - Two contracts: sales contract between domestic consumer and foreign seller, contract for overseas delivery between domestic consumers and overseas carriers
3. Overseas Purchasing Agent: Purchasing and receiving overseas products using a purchasing agency site
  - Purchasing agents purchase and pay for products on behalf of consumers and deliver them to consumers



Source: Korea Consumer Agency

### CBEC Legal Issues

Recognized the importance of managing CBEC legal risks and pointed out that these legal risks were caused by the different laws of the countries involved in CBEC.

Trzaskowski, J. (2004). Legal risk management in cross-border e-commerce. In *Eu Electronic Commerce Law* (pp. 159-175)

Proposed legal issues in C2C e-commerce model based on e-bay and Paypal case.

González, A. G. (2003). eBay Law: The legal implications of the C2C electronic commerce model. *Computer Law & Security Review*, 19(6), 468-473.

### Trust in CBEC

Buyers perceptions of the integrity and legal structure of the suppliers' country of origin, and third-party verifications of suppliers would be needed to build trust in BCEC.

Koh, T. K., Fichman, M., & Kraut, R. E. (2012). Trust across borders: Buyer-supplier trust in global Business-to-Business e-commerce. *Journal of the association for information systems*, 13(11), 886-922.

### Online dispute resolution

Online dispute resolution could be an alternative for dispute resolution in CBEC

Duca, L. D., Rule, C., & Loebel, Z. (2012). Facilitating expansion of cross-border e-commerce-developing a global online dispute resolution system (Lessons derived from existing ODR systems-work of the United Nations Commission on International Trade Law). *Penn St. JL & Int'l Aff.*, 1, iv.

Forums, chat rooms, websites with encryption software and password protection, and video conferencing could be used for online dispute resolution

Stylianou, P. (2008). Online dispute resolution: the case for a treaty between the United States and the European Union in resolving cross-border e-commerce disputes. *Syracuse J. Int'l L. & Com.*, 36, 117.

### Internet Jurisdiction

Proposed the concept of internet jurisdiction, which aimed at improving people's awareness of other countries' laws and standards.

Ward, B. T., Sipior, J. C., & Volonino, L. (2016). Internet Jurisdiction for E-commerce. *Journal of Internet Commerce*, 15(1), 1-17.

### Barriers to CBEC

differences in customs and duty regimes and tax laws were substantial barriers to CBEC business, as these differences can significantly increase the delivery costs and delay the delivery schedules.

Gessner, G. H., & Snodgrass, C. R. (2015). Designing e-commerce cross-border distribution networks for small and medium-size enterprises incorporating Canadian and US trade incentive programs. *Research in Transportation Business & Management*, 16, 84-94.

### CBEC Risk Assessment

Cross-border e-commerce commodity risk assessment using text mining and fuzzy rule-based reasoning

Song, B., Yan, W., & Zhang, T. (2019). Cross-border e-commerce commodity risk assessment using text mining and fuzzy rule-based reasoning. *Advanced Engineering Informatics*, 40, 69-80.



**Not much researches on risks in CBEC**

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## Risky CBEC

- CBEC is more risky than either the traditional offline market or the domestic electronic market due to;
  - The high information asymmetry between international buyers and sellers
  - Poor legal enforcement across countries
  - Language and culture barriers
  - High shipping costs in international trading

“ 37.6% of Korean CBEC customers give up returns and refund due to complicate procedures”

## What are the risks for cross border ecommerce?

- Unreliable and lengthy transit times
- Complex and ambiguous return processes
- Customs bottlenecks
- Limited transparency on delivery
- Price opacity
- limited ability to alter delivery times and locations

### Rejecting cancellation, refund, and exchanges

- “A” received a Dyson humidifier refurbished product that she purchased through a overseas direct purchase. However, a part of the humidifier was delivered damaged, such as a cracked product. At first, Dyson decided to send the parts because it was guaranteed for six months after purchase, but the headquarters changed its attitude, saying, "We cannot compensate for it." after knowing product was delivered thorough shipping agents. Shipping agents also reject compensation by repeating that they cannot be held responsible.
- “B” ordered a famous brand of sneakers through an overseas purchasing agency, but asked for cancellation a few hours after the delivery period was longer than expected. The seller refused to cancel the order because the overseas delivery had already begun.
- “C” purchased hair loss treatment from overseas sites in July 2020 and paid about 200,000 won. After payment, they were informed that customs clearance was rejected because the products included banned ingredients. As a result, “C” demanded a refund of the money due to breach of notice, but no communication was made in any way.

### Undelivered or delayed delivery

- After purchasing clothes from **overseas direct purchase** on November 27, 2013, “D” used a shipping agency. Although the clothes arrived at the local warehouse on December 2 of the same year, they were only delivered on January 20, 2014, a month and a half later.
- In November 2014, four clothes were purchased from a U.S. clothing sales site and then delivered to a shipping agency. On December 11 of the same year, “E” received a call from a shipping agency that only three pieces of clothing had arrived.
- The U.S. seller said that it was impossible to re-deliver or refund the purchase price because it sent four sets correctly, and that the shipping agency had never received one of the clothes and could not compensate for the damage because it was not caused by its negligence.

### Damaged or wrong product

- “F” ordered a diving suit through an overseas online shopping mall and paid by credit card. As “F” claimed the product was not delivered, the seller replied it had already been delivered and informed the shipping number. After tracking the shipping number, “F” found that it had been misdelivered to another address, but the refund was not taken from the seller.
- On November 26, 2014, “G” bought a TV at an overseas Internet shopping mall and used a oversea shipping agency. When the TV arrived in Korea, the shipping agency demanded an additional 170,000 won to receive the TV directly from a logistics warehouse near Incheon International Airport.
- After delivery and checking the outside of TV, the company requested to sign the terms of exemption from damage. When “G” connected the power at home, the TV wasn't working. So “G” asked the seller about the problem, and they replied it was a panel break caused by careless delivery.
- When “G” complained to the shipping agency, they refuse the compensation because he signed a written exemption for damages.



### Excessive return and cancellation Fee

- Some overseas purchasing agencies impose excessive fees when customer request return.
  - “H”, who ordered a mobile phone, asked for cancellation of the purchase the next day, but the purchasing agency had already sent it and demanded 40 percent of the price of the product for return.
- 
- “I” asked for the cancellation of the order within an hour after purchasing a box of masks for about 90,000 won from a Chinese Seller in the open market. “I” tried to make a call because there was no answer for cancellation thorough open market, but there was a notice that the number did not exist. After two days, the seller insist that the product has already been shipped and that it will cost 60,000 won to return it.

# 3.3 List of Risks in CBEC

(Unit: Cases, %)

Response to Claim

Delivery

Quality

Fraud

Reasons for Claims	2018		2019		Growth Rate
	Cases	Share	Cases	Share	
Rejecting cancellation, refund, and exchanges	8,961	40.4	9,292	38.4	3.7
Unfair penalty fees	3,566	16.1	4,075	16.8	14.3
Undelivered, Delayed, Damaged Delivery	2,230	10.1	2,965	12.3	33.0
Product defect, quality problem	1,754	7.9	2,666	11.0	52.0
Breach of contract	1,862	8.4	2,410	10.0	29.4
Discontinued contact	1,591	7.2	767	3.2	▽51.8
Payment issue	422	1.9	542	2.2	28.4
Exaggerated Advertisement	249	1.1	286	1.2	14.9
Others	1,534	6.9	1,191	4.9	▽22.4
<b>Total</b>	<b>22,169</b>	<b>100.0</b>	<b>24,194</b>	<b>100.0</b>	

Source: Korea Consumer Agency

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## Risk Avoidance

- Do not use unreliable sellers, and shopping malls.
  - Credit rate check based on credit score provided by e-market place
  - Do not purchase from unknow, unpopular e-market place (checking fraud list from consumer protection agency)
- Checking refund & change policies in e-market place or sellers
- Do not accept cash payment which would have risk in refund

## Third Party Guarantee

- Refund and payment guarantee system provided by E-market place
  - Internal dispute resolution service (Determined by e-market place) and Escrow system
  - Generally guarantee timely delivery and the condition of the products
  - E.g. A-to-Z Guarantee claim(Amazon), Money Back Guarantee(eBay), Shopee Guarantee(Shopee)

# 4.1 Example of Third Party Guarantee

## e-Bay: Money Back Guarantee

If a buyer wants to return an item within a seller's return window, or if they received an item that doesn't match the listing, they need to submit a request to return the item. The seller should address the buyer's concern and offer a solution, such as accepting a return or offering a replacement or refund, within 3 business days. If the seller doesn't respond to the return request, we may refund the buyer and seek reimbursement from the seller without requiring the buyer to return the item to the seller.

## Shopee Guarantee

Shopee Guarantee is a service provided by Shopee or its authorised agent to protect purchases. To protect against the risk of liability, payment for purchases made to Seller using the Services will be held by Shopee or its authorised agent ("Shopee Guarantee Account"). Seller will not receive interest or other earnings from the sum you have paid into Shopee Guarantee Account.

Shopee determines that Buyer's application for a return of goods and/or refund is successful, in which case, unless 12.2(d) applies, Shopee will provide a refund to Buyer, subject to and in accordance with the Refunds and Return Policy;

## Charge back service

- Charge back: getting money back if delivered goods have problem or a service wasn't provided
  - Card companies offer charge back service at their own discretion. (Company rules)
  - Scope: company goes into administration, receiving defective product, Non-delivery, technical issue, payment error, Fraud
- Using credit card with charge back service (Not all card companies provide it)

## Insurance for CBEC

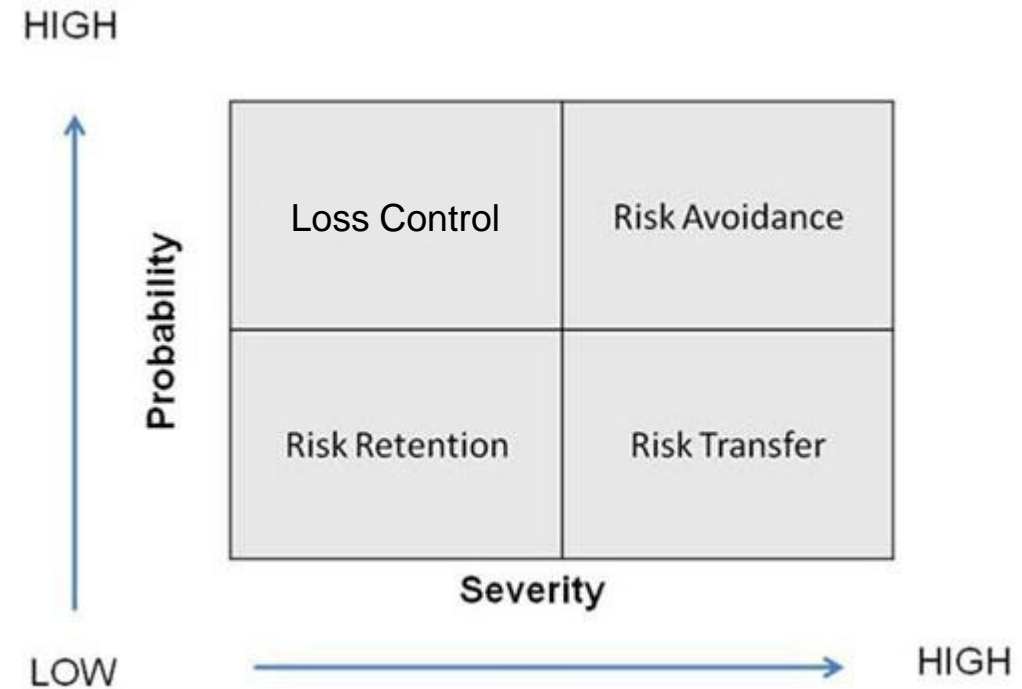
- Interworking with credit card companies that support overseas payment
  - Insurance for un-delivery, refund
  - Insurance for damaged delivery
  - Insurance for product problem which could not covered by manufacturer
- Limit on insurance amount and compensation

## Risk management strategy

- Risk Avoidance: not performing any activity that may carry risk.
- Loss Control: mitigating potential losses while engaging in potentially risky behavior
- Risk Transfer: risk is transferred to a third party
- Risk retention: planned acceptance of losses

## What Kind of strategy would be suitable for CBEC?

- Limitation on risk assessment
- Low severity, High probability → Loss Control
- Low severity, High probability + Difficulties in remedy → Risk Avoidance



# Thank You!

ly83@naver.com