

# Fraud in Online Transaction: Case of Instagram

Tifa Noer Amelia

Perbanas Institute, Jl. Perbanas, Setiabudi, Karet Kuningan, Jakarta Selatan, Indonesia 12940

Email: tifanoer@perbanasinstitute.ac.id

**Abstract**—Online transaction in online store is a trend and favorable practice in big cities in the world. The major factors are the rush hours, flexible access to avoid traffic jam and the uniqueness of the product offered by online store. This research conducted by observing and interviewing research object that consist of Instagram buyer and seller to find the fraudulent act that possible to occur in online transaction. The result is the fraudulent practice and how to prevent fraud in online transaction.

**Index Terms**—E-commerce, social media, Instagram, online transaction, fraud

## I. INTRODUCTION

Fraud is an unethical activity that has purposes to harm other parties (Hall, 2013). Here, researcher what to compile the fraud practice that possibly happen in online transaction trough Instagram. Instagram is a social media that developed in 2010. Instagram allow us to share pictures, make a comment, and post a like sign to other picture collections. Online transaction trough social media is a media to facilitate buyer and seller in Accounting cycles. Starts from ordering, selling, produce to billing activity. Fraud in this research will describe from the Supplier, Producer and Customer perspectives.

Customers start to look for the media that can make their transaction in daily activity as easy as possible. Online transaction in selling and buying product is the best two that become the trigger of social media to facilitate that activity. Customers expecting for a transaction that require easy procedures, so that they might get the product they have choose from the social media with the best value, effortlessly. Meaning to state this is the concept of, if customer might get the product without the obligation to pay it, no matter how low is the product's value, they will fight for it.

Generally, transaction is an economic activity or financial activity that require two parties that exchanging thing happily [1]. Transaction can be the exchanging activity of product or service that has economic effect to business. In exchanging product or service, must benefit both seller and buyer, and record in a document (Accountable). Online is an activity that using computerized device and connected through internet. So that, online transaction trough Instagram is to browse the online store to buy or sell that using a social media application called as Instagram.

## II. STUDY BACKGROUND

This research started from seven principles of interpretive research that consist of fundamental principle of the hermeneutic circle, contextualization, interaction between the researchers and the subjects, abstraction and generalization, dialogical reasoning, multiple interpretation and suspicion. From those principles, this study divides into research background, research questions and research purposes.

### A. Research Background

Research backgrounds of this study are:

- Indonesian business player, starts from SMEs (Small Medium Enterprises) to Multinational Companies, tent to use e-store to improve their business performance [2].
- Simplicity factor make people use social media to make an online transaction. Social media allow us to make an online transaction on a single click [3].
- Online transaction trough social media is a life style. Future will demand for sophistication, especially in technology [4].
- Need for security. By using technology, information can be accesses much easier. That is why, security issue is one of the research conducted [5].

### B. Research Questions

Online business player, seller or buyer, has the possibility to experience fraud in every online transaction that they do. Based on several Instagram accounts that focus on blacklisting suspected account, they post around eleven cases per day. The account's owner approved case in every two hours. The crime suspect can be both seller and buyer. Here the research questions:

- 1) *Is the seller been experiencing deception on online transaction from supplier?*
- 2) *In which process that deception possible to happen?*
- 3) *Is the seller had been experiencing deception on online transaction from buyer?*
- 4) *In which process that deception possible to happen?*
- 5) *Is the buyer had been experiencing deception on online transaction from seller?*
- 6) *In which process that deception possible to happen?*

### C. Research Purposes

Research purposes of this study are:

- 1) *This research examines the fraud potential in online transaction through Instagram.*
- 2) *This research examines the fraud practice and application in online transaction through Instagram.*
- 3) *This research examines the internal control to prevent fraud in online transaction through Instagram.*
- 4) *This research will persuade people to have more self-confident to make online transaction, especially through Instagram.*

### III. THEORETICAL BACKGROUND

In this part, researcher will divide into two topics. One is about the theoretical framework that describes the theory that limit the research and previous research that describe the fact of this study based on the previous research study. Theoretical framework is the theory that becomes the basic concept of the research questions.

Online shopping is an alternative way to purchase in Indonesia. This is proved by a large number of new comers that trying to penetrate this market to conquer competitive business competition [6]. One of the social media that can accommodate this is Instagram. Instagram are getting big 'like' for its ability to accommodate user to post picture and to create buzz through the video feature. Another social media that has the posting picture feature is Pinterest. In this research Pinterest's users are primarily women, while Instagram appeals to young adults. Twitter accommodates conversation with customers, and Facebook describe a product in more detail [7].

Indonesian market for online transaction is growing. One of well known store called Cisco opening e-store called as Beli Cisco to provide an online market for Indonesian Small and Medium Business player. This first virtual and online platform of multiple Cisco certified partner into a single collaboration at present are from: Bandung, Palembang, Batam, Makasar, Riau, Medan, Surabaya, Denpasar, Yogyakarta, Semarang, Solo, Purwokerto and Pekanbaru [8].

An effective retailing company is a company that provides a powerful website of their company. A powerful website can create a competitive image and in a top rank of searching engine result. Top rank website is a website that has most clicks, most links, most related or paid website. An impressive website is an investment [9]. Through the internet, a lot of distrust transaction happen and in general, user's satisfaction of online retailer is lower than offline. Even if the customer can experience less technical and cost barriers to make an online transaction, at the same time, we cannot deny that the number of people's willingness to buy online is also increasing. 29% of people believe in online transaction, 68% trust small online business, 47% trust online government service, and 32% trust large corporation online service [10].

### IV. RESEARCH METHOD

#### A. Research Philosophical Assumption

There are three philosophical assumptions in a research classification; they are positivism, interpretive and critical.

This assumption is the way to distinguish qualitative and quantitative method. So that, before this research go any further, assumption must be determine at the first place. After assessing the possible assumption, this research included as critical assumption because of the research has characteristic to disclosure a social reality that already become the mindset of the modern society, human basic instinct involved in this assumption is creative and adaptive to potential that has not been realized, tend to become the media for an improvement, and based on science that has the ability to open an illusion [11].

#### B. Research Time and Location

This research conducted in Indonesia for around a year. This research started from proposing topic on December 1<sup>st</sup> 2013, revising procedures around March to June 2014, finalization in September 2014, applying for international conference and publication in December 2014.

#### C. Research Population and Sample

Research sample and population is Instagram online seller and buyer that listed in Indonesia. To identify that they are Indonesian base, research conduct an interview through email, online questionnaire, online messenger and face to face.

Seller purposive sampling characteristics are:

- Has an active account in Instagram
- Has more than 1000 followers
- Exchanging product or service
- Experiencing online transaction
- Willing to be interviewed
- Trusted

Buyer purposive sampling characteristics are:

- Has an active account in Instagram
- Has the willingness to be interviewed
- Experiencing online transaction

Other supporting accounts:

- Instagram account that focusing their content to blacklist suspicious buyer or seller account.
- Has more than 10.000 followers

#### D. Research Analysis

Research type of this study is action research. Action research aims to contribute both to the practical concerns of people in an immediate problematic situation and to the goal of social science by joint collaboration within a mutually acceptable ethical framework. There are five processes covering the action research. First is diagnosing, identifies and defines the problem. Second is action planning, specifies the courses of action to be taken. Third is action taking, implement the planned action. Fourth is evaluating, analyses the effects of the actions. Specifying learning identifies what was learnt.

Research Collection Technique is conducting an interview and observation. Observation divided into two, observing other peoples' experience and practicing the self-trial. Here the interviewing procedures:

- Make Instagram account

- Search the potential seller based on the required characteristics
- Order a product or service
- Check the product quality
- Delivery service consistency
- Make a meeting arrangement
- Conduct an interview
- Compiling data
- Divide into two category (buyer and seller)
- Find the solution for each fraud

Sellers obtained in this research are with the identity as listed below:

- Meiana, with Instagram's nick name @Sosialita, around 2.500 followers.
- Widya, with Instagram's nick name @Dewishop, around 27.500 followers.
- Welly, with Instagram's nick name @Asyurasopz, around 60.000 followers.
- Siu Jun, with Instagram's nick name @Godwinstoor, around 1.000 followers.
- Luh Je, with Instagram's nick name @Aletheidept, around 29.000 followers.
- Roro, with Instagram's nick name @Roroangraeni, around 52.000 followers.
- Angie, with Instagram's nick name @anggie\_shop, around 3.000 followers.
- Revi, with Instagram's nick name @reloashop, around 78.000 followers.
- Fina, with Instagram's nick name is not allowed to publish, around 1.000 followers.
- Elsa, with Instagram's nick name is not allowed to publish, around 1.000 followers.

Buyers are not using their personal account Instagram, but available as requested by email. Respondent obtained in this research are with the identity as listed below:

- Imam Ydi S., with contact email imamyudisetiawan@yahoo.co.id.
- M. Naspiyani, with contact email naspiyani44@gmail.com.
- Aldi Riandi, with contact email aldirandi26@gmail.com.
- Fedriko, with contact email rikopinem@gmail.com.
- Geordyan D, with contact email geordyan@yahoo.com.
- Farahdina, with contact email farahdina01@yahoo.com.
- Asnatasia Ega, with contact email asnatasiaega@gmail.com.
- Faivina, with contact email faivina@yahoo.com.
- Zulfikhar B, with contact email zulfikhar@gmail.com.
- Guntur Y., with contact email mgyasserarafat@yahoo.com.

## V. RESULTS AND FINDINGS

Fraud cannot be erased from an online transaction in Instagram since Indonesian user still using a simple payment method of transaction.

Seller and buyer that involved in this research are those who have the willingness to participate voluntarily. Each participant can be confirmed through the contact person that listed below.

The respondent was obtained from random survey. Six respondents categorized as buyer has intention to buy online and four who don't has no intention to buy online, because of the other people experiences in facing fraud when applying online transaction. Eight respondents categorized as seller has been experiencing fraud in online transaction and the rest two is never.

An act included as a fraud has to fulfill several requirements. They are false representation, counted as material fact, has the intention to do it, justifiable reliance and cause injury or loss [12].

There are frauds that faced by buyer. First, the product is not as expected or the seller do not sent the product. Here the fraud mechanisms:

- 1) Product accepted longer than the due date with several reasons:
  - They have problem with their supplier.
  - The product is not ready in stock
  - The order is overload.
  - The delivery service is overload.
  - The delivery service sent to the wrong address.
- 2) The product quantity and specification is different.
  - Buyer does not specify the costumed goods.
  - Incorrect purchase order.
  - Accept defect product because it is drop ship product.
  - The product quantity is different from the order.
- 3) The seller claimed that the buyer have not sent the payment.
- 4) Blacklisting the buyer's account after payment.
- 5) Returning the wrong product and the seller do not want to pay the return fee.
- 6) Trusted seller at the first order to gain follower and customer, then cheating.
- 7) Hypnotize buyer to make a payment after the customer send their personal identity information.
- 8) Canceling the transaction after sent the shipping slip.
- 9) Fake discount.
- 10) Hide the consumer order by the staff to record the transaction since he or she is the only administrator who record the order and accept the payment.

To prevent seller fraud in online transaction there are several procedures that we can do to minimize and avoid fraud:

- 1) Search for the seller testimonial through searching engine.
- 2) Quantity of the followers.

- 3) Comparing the price with offline shop and the other online shop.
- 4) Cash on delivery
- 5) Using trusted escrow Service for payment.
- 6) Contact service name or number combination.
- 7) Check the tagging option of the seller.

Frauds caused by buyer that faced by seller are:

- 1) Buyer who claim the payment and the seller do not make a real time checking
- 2) Buyer claim a payment by sending fake receipt
- 3) Ask for drop ship, so buyer can get special price for personal use. Drop ship is a marketing method in distributing product directly from the supplier without customer recognizing the supplier identity.
- 4) Using escrow service to get the product first and buyer change the component to the fake one.

To minimize fraud, there are two categories, physical and psychological prevention. Physical prevention consists of:

- 1) Segregation of duties.
- 2) Authorization on approval.
- 3) Verification of transaction.
- 4) Supervision.
- 5) Access control.
- 6) Accounting record.

Psychological prevention consists of:

- 1) Minimizing the fraud frequencies
- 2) Maximizing the detection ability.
- 3) Improving the difficulties in fraudulent act.
- 4) Minimizing potential loss.

Here the example of internal control that divided into physical and psychological category resulted from the research. Segregation of duties, differentiate the administrator who records the order and the payment. Authorization, approving for sent item to customers by the other department. Verification, as the customer, they need to check the seller reputation trough the searching engine. Supervision is controlling the inventory periodically or making random stock checking. Access control, is protect the gadget that used to make the online transaction by using code or password. Accounting record, make a journal and posting procedures to see the flow of the transaction. Minimizing fraud frequencies, educate the administrator who operates the gadget and system. Maximizing the detection, the online store owner tries to break their own transaction system. Improving difficulties, sending the payment slip to the seller trough screen capture or captured picture as the source document. Minimizing loss, is implementing cash on delivery transaction for exclusive or expensive item.

Fraud triangle represents the act that supports fraud. They are, pressure, rationalization and opportunity.

Pressures in this context are pressure from the seniors, bosses, leaders, lifestyle and even financial need. Rationalization more like to replicate those who success after conducting fraud act. Opportunity is because of the victim has less internal control to secure their online transaction.

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**Tifa N. Amelia** born in Blitar, Indonesia, February 5th. She earned her bachelor degree in Management of Finance, Universitas Islam Indonesia and master degree in Accounting Information System, Universitas Gadjah Mada, Indonesia. She is working as a lecture in Perbanas Institute, Jakarta, Indonesia. Her previous publications are:

- [1] The Causality Relationship between Exchange Rate and Stock Price Index in Indonesia (Yogyakarta, Indonesia, Synergy, 2009).
- [2] The Effect of Skill to Effective and Efficient Knowledge Transfer in Virtual Collaboration: Diversity as Moderating Variable (Yogyakarta, Indonesia, ABIS, 2012).

Her research interest is information system in Accounting and Management. Ms. Tifa is a part of Accountant Association (IAI-Ikatan Akuntan Indonesia) and Lecture Association (ADI-Ikatan Dosen Indoensia) in Indonesia. Her latest accomplishment is the best paper in International Conference in Emerging Market 2013, Yogyakarta, Indonesia.