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## **E-payment fraud reaches \$3.6 billion for 2007, or 1.4% of sales, study says**

The percentage of online revenue lost to fraud in 2007 held steady with 2006 at 1.4%—but as e-commerce grows, the total dollar loss from online payment fraud is growing at the rate of about 20% a year and is estimated at \$3.6 billion in 2007, up from \$3.1 billion in 2006, according to CyberSource Corp.'s 2008 Online Fraud Report.

The annual survey from the electronic payment services vendor found that the percentage of orders accepted by online merchants but later determined to be fraudulent was 1.3% in 2007 compared to 1.1% in 2006. Incoming orders rejected by merchants because of suspicion of fraudulent activity also was up slightly-- 4.2% in 2007 compared to 4.1% the previous year.

The report notes that some merchants of similar size selling similar products online maintain order rejection rates significantly below 4% while also maintaining low fraud rates. So web merchants with order rejection rates of 4.2% or above are rejecting a significant number of valid orders, the survey report concludes.

The survey determined that manual order review rates were up to 27% of orders in 2007 from 23% in 2006. Overall, more than 82% of merchants engage in manual order review, averaging one out of every three orders. Larger online merchants, defined as those with \$25 million or more in sales, tend to employ more automated order review and had a slight drop in their manual order review rate, from 15% to 14%. However, that drop didn't offset their growth in online order volume, meaning that they likely reviewed the same or a greater number of orders in 2007 as in 2006, according to CyberSource.

The survey also determined that on average merchants found the rate of fraud associated with international orders to be more than two and one-half times as high as on domestic orders.

Chargebacks, the most often cited metric for online payment fraud, account for almost half of fraud losses. But merchants that confine efforts to combat fraud loss to a focus on managing chargebacks aren't seeing the whole financial picture, CyberSource says.

Payment fraud affects profits from online sales in multiple ways besides direct revenue loss, such as the cost of stolen goods, the cost of rejecting valid orders, cost of staffing manual order reviews and the limits manual review places on scalability. "Profit leaks" from those areas affect 47% or more of all orders for medium-sized online merchants and 19% or more for large merchants, the report says.

"While the fraud rate is one metric to monitor and contain within industry and association limits, an end-to-end view is required to arrive at the best possible outcome," CyberSource says.

The survey, conducted in September of 2007, was based on responses from 318 online merchants in the U.S. and Canada whose collective 2007 online sales volume was estimated at \$50 billion.