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# 2015 global online fraud panorama

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## Online fraud / context and trends

Any business wishing to sell online has to understand the potential impact of payment fraud. Ingenico Payment Services here presents a global online fraud panorama that enables you to better understand fraud trends worldwide.

Global e-commerce sales reached \$1.5 trillion in 2014\*, a 20.1% increase in sales compared with the previous year. Sales are expected to further increase to \$2 trillion by 2016 and \$2.5 trillion by 2018.

Key growth factors include rapidly expanding online and mobile user bases in emerging markets, increased m-commerce sales, advancing shipping and payment options, and the push into new international markets by major brands.

Online commerce has become mainstream. The increasing flows of money going through connected commerce (whether they are traditional online, mobile or cross-channel) also capture more and more attention from fraudsters. Last year, both the number of data breaches and the fraud chargeback rate increased significantly.

Online commerce is more vulnerable than traditional commerce: 60% of card fraud in Europe is associated with online payments\*\*. Online fraud can be very costly for merchants, with estimated cost between 0.3% and 3% of revenue.

Merchants willing to counter fraud effectively have to find the right balance between fraud prevention technics and converting visits into sales.

## key learnings

➤ Overall average fraud chargeback rate increased from 0.40% in 2013 to 0.47% in 2014.

➤ High discrepancies per country depend on card share in the segment, adoption of 3-D Secure and maturity of the market.

➤ Fraud chargeback rate is higher when the amount is above 30€ (> 0.5%) with a peak at 100-150€ (0.83%). Amounts lower than 30€ are less exposed to fraud chargeback (< 0.3%).

➤ High discrepancies per industry depend on exposure to fraud and on maturity level of the industry.

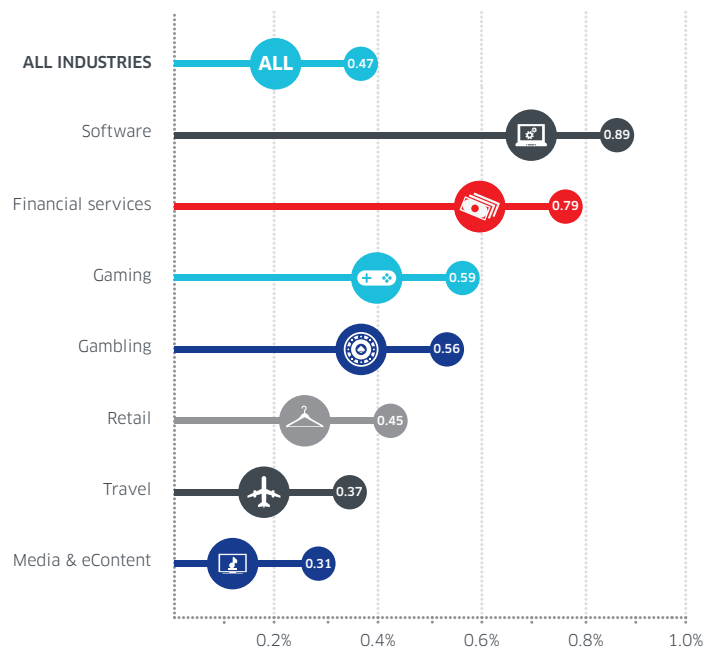
➤ Smaller merchants tend to rely more on 3-D Secure while large merchants prefer to opt for their own fraud detection tools and processes to avoid extra customer friction.

\* eMarketer - December 2014

\*\* European Central Bank - February 2014 - Third Report on card fraud

## Fraud chargeback rate per industry

Percentage of EUR transaction volume reported as fraud chargebacks based on merchant's industry - Large corporate companies



Software (0.89%), Financial Services (0.79%), Gaming (0.59%), Gambling (0.56%) and Retail (0.45%) are the industries with the highest fraud chargeback rates.

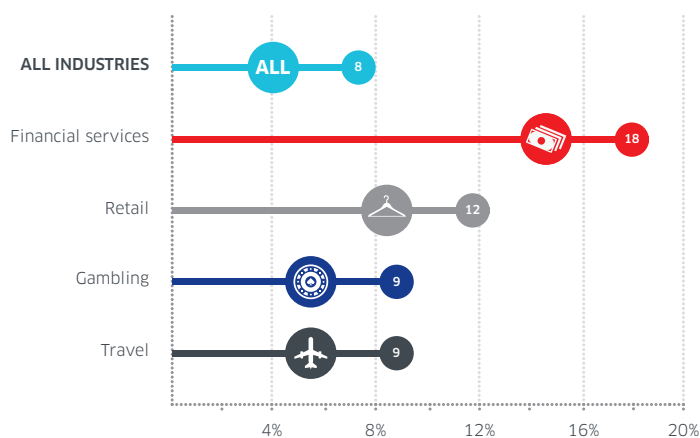
Industries such as Airlines (0.37%) where fraud is more prevalent show maturity in fighting online fraud and have a lower fraud chargeback rate. Some other industries are less exposed to fraud due to the type of product or service provided, for example Media & eContent (0.31%).

Discrepancies per industry depend mainly on exposure to fraud and on maturity level of the industry. Fraudsters tend to focus on products or services that are high value and/or easy to resell such as Consumer electronics, Ticketing and Travel tickets. Some industries where margins are very high and where the cost of a chargeback is quickly absorbed tend to have greater willingness to accept a higher chargeback rate as they want to avoid turning down revenues. This is true in the case of the Software and Gaming industry, for example. In comparison, industries that are heavily attacked and where margins are very tight have developed high maturity in fighting fraud and keep the fraud chargeback rate as low as possible. Industries that behave in this way include Airlines & Travel or some Retail activities.

## 3-D Secure adoption rate per industry

Percentage of EUR transaction volume going through the 3-D Secure authentication process based on merchant's industry - Large corporate companies

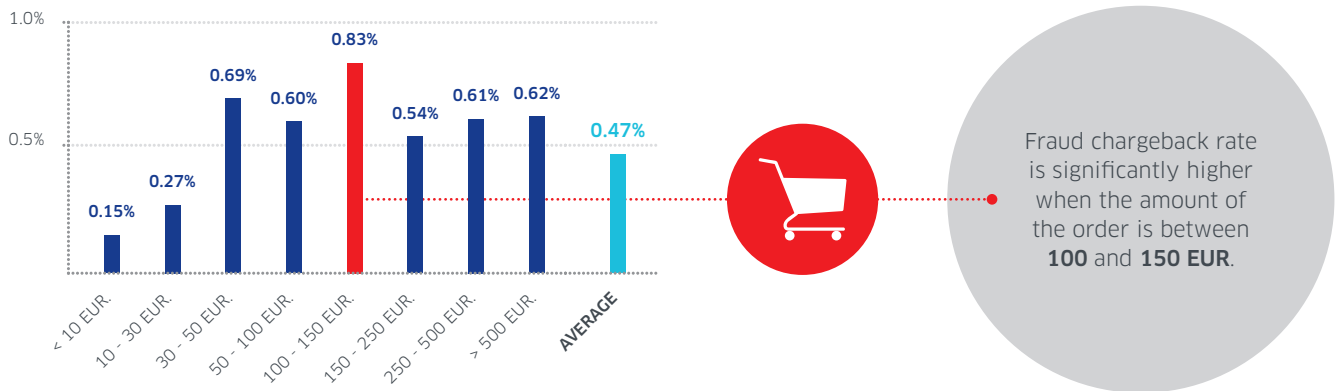
For large merchants, 3-D Secure is mainly used in risky industries such as Financial services, Retail, Gambling or Travel.



3-D Secure adoption is very low in industries where orders are mainly via mobile devices or are for small amounts and where the cost of fraud chargebacks is easier to absorb as margins are high. For instance Software (2.76%), Gaming (0.99%) or Media & eContent (0.03%).

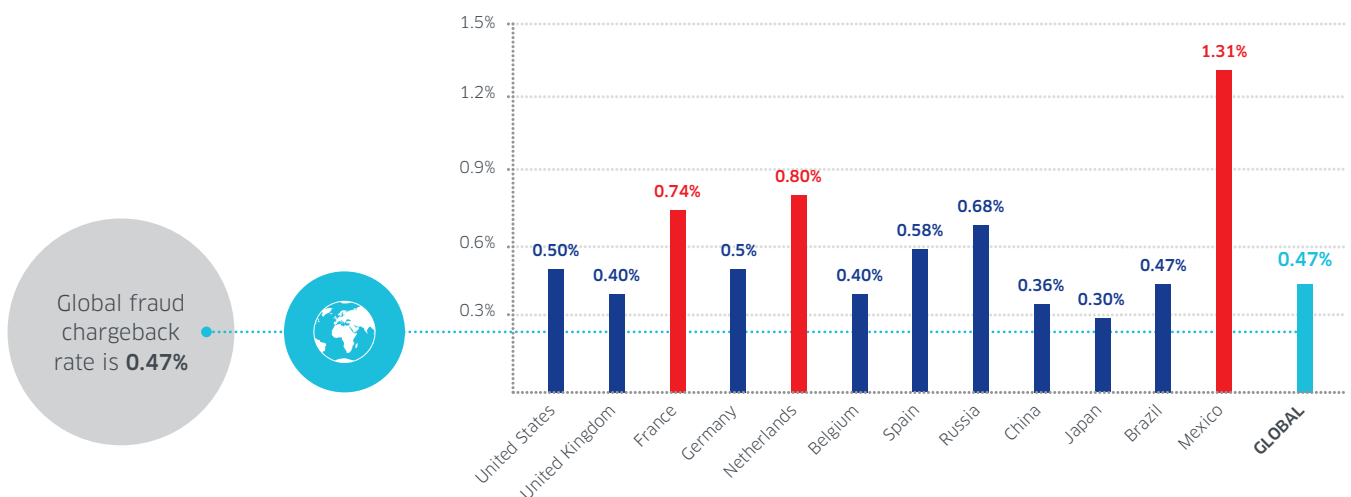
## Fraud chargeback rate per order value

Percentage of EUR transaction volume reported as fraud chargebacks based on the order value - Large corporate companies



## Fraud chargeback rate per consumer country

Percentage of EUR transaction volume reported as fraud chargebacks based on consumer country - Large corporate companies



Mexico 1.31%



Netherlands 0.80%

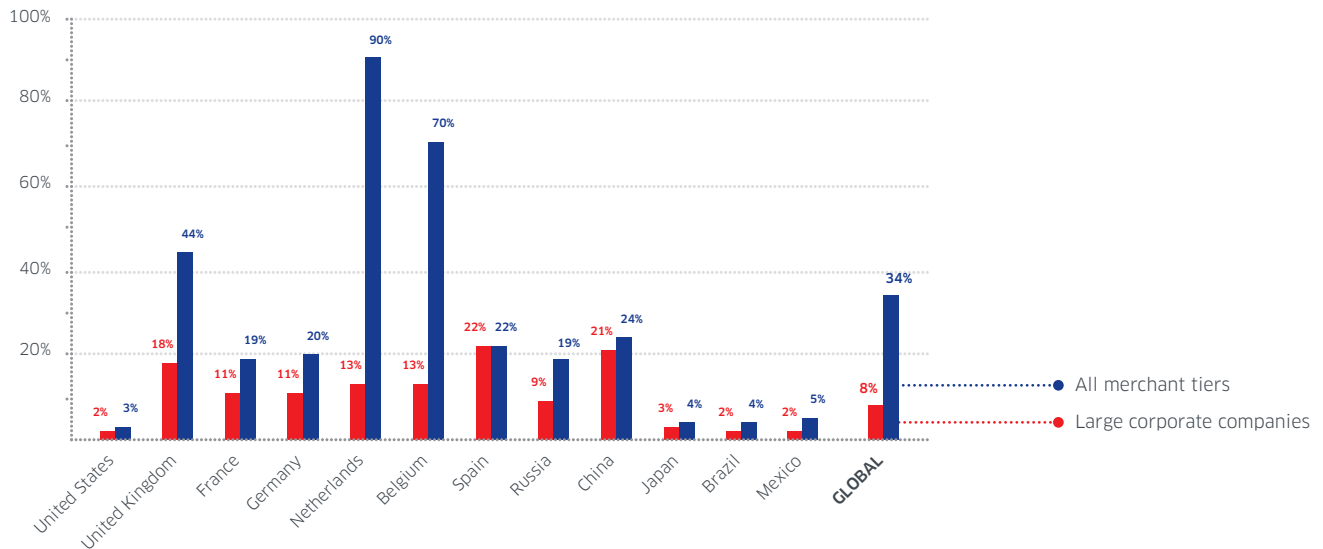


France 0.74%

USA, UK, France, Mexico, Brazil, China and Russia are the main countries where higher online fraud rates are perpetrated. In the US and UK, online merchants have had longer experience of dealing with fraud issues and therefore address the online fraud problem with more focus than in the other countries. For example, in France, online merchants have only recently started to develop the expertise and fraud prevention tools to tackle online fraud more effectively. In some countries (e.g.: Mexico), the fraud rate is high due an intense fraud activity, a lower merchants maturity and the non-use of 3-D Secure and therefore lower opportunities for merchants to shift liability.

## 3-D Secure adoption rate per consumer country and business size

Percentage of EUR transaction volume going through the 3-D Secure authentication process based on consumer country - Large corporate companies and all merchant tiers



- For large corporate companies, overall adoption is lower than 10% (8.34%) while across all merchant tiers, the figure reaches 34.4%.
- Small merchants rely more on 3-D Secure to lower their fraud risk. Across all merchant sizes, adoption is highest in The Netherlands (89.9%), Belgium (70.4%) and the United Kingdom (43.7%).
- Countries with lowest adoption are Mexico (4.7%), Brazil (4.3%), Japan (3.9%) and the United States (3.1%).
- The higher the adoption, the higher the chance the consumer will drop off his order as he might not know how to proceed or not be willing to perform this extra authentication step.

## Methodology used for the 2015 global online fraud panorama

This 2015 global online fraud survey involves online transactions made between January, the 1st of 2014 and December, the 31st of 2014. Large corporate companies sample provided by GlobalCollect. Ingenico Payment Services and GlobalCollect are part of the Ingenico Group, the global leader in seamless payment.

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