

2016 / global online fraud panorama



Online fraud / context and trends

Online payment fraud is now an accepted part of the eCommerce landscape and is becoming more and more sophisticated. Ingenico ePayments has produced this report to help you stay up to date on trends and risks in fraud that can affect the way you run your business online.

Global eCommerce sales in 2015 increased by 13.3% compared to the previous years, reaching \$1.7 trillion*. In 2016, global B2C eCommerce sales are expected to reach \$1.92 trillion and \$2.3 trillion by 2018.

Key growth factors include rapidly expanding online and mobile user bases in emerging markets, increased mCommerce sales (mCommerce is expected to be 45% of online sales at \$632 billion by 2020), advancing shipping and payment options, and the push into new international markets by major brands.

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 costs between 0.3% and 3% of their revenue.

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

key learnings

- Overall average fraud chargeback rate increased from 0.47% in 2014 to 0.60% in 2015.
- High discrepancies per country depend on card share in the segment, adoption of 3-D Secure and maturity of the market.
- The higher the order amount, the higher the fraud chargeback rate. Order amounts higher than 150€ showed exponentially higher chargeback rates (0.53-0.70%). Amounts lower than 30€ are less exposed to fraud chargeback (< 0.20%).

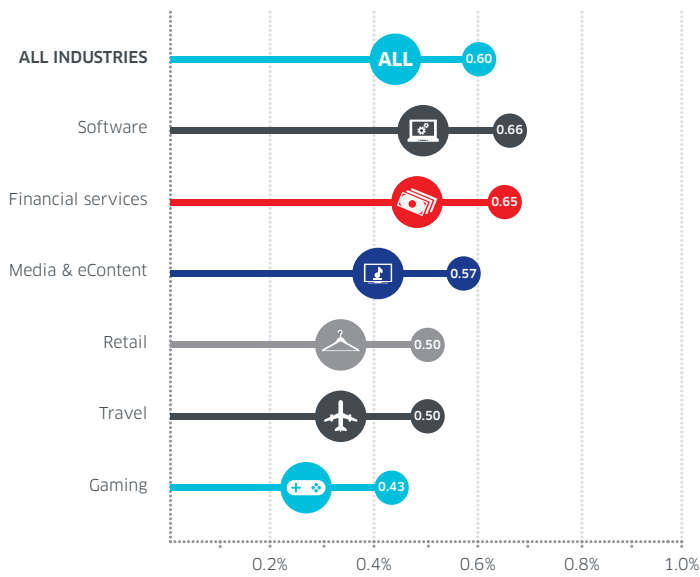
- High discrepancies per industry depend on exposure to fraud and on maturity level of the industry.
- Smaller merchants tend to rely more on 3-D Secure while large merchants prefer to opt for their own fraud detection tools and processes, to avoid extra customer friction.

* Sources: statista and Ingenico ePayments

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

Fraud chargeback rate per industry

Percentage of fraud chargebacks (merchant-based average) based on merchant's industry - Large corporations



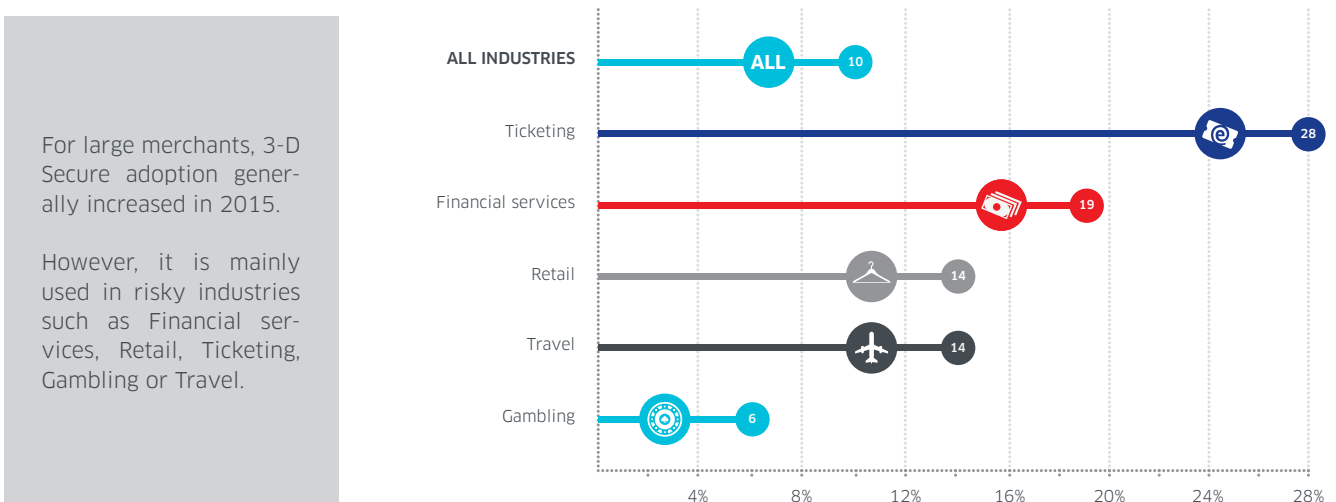
Software (0.66%), Financial Services (0.65%), Media & eContent (0.57%), Retail (0.50%) and Travel (0.50%) and were the industries with the highest fraud chargeback rates in 2015.

In industries such as airlines where fraud is more prevalent, the number of chargebacks had gone down in previous years, thanks to higher awareness and fraud protection. However, these figures spiked again in 2015 from 0.31 to 0.50%.

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. Some industries where margins are very high and where the cost of a chargeback is quickly absorbed tend to have greater willingness to accept higher chargeback rates 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 their chargeback rates as low as possible. Industries that behave in this way include Airlines & Travel and some Retail segments.

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 corporations



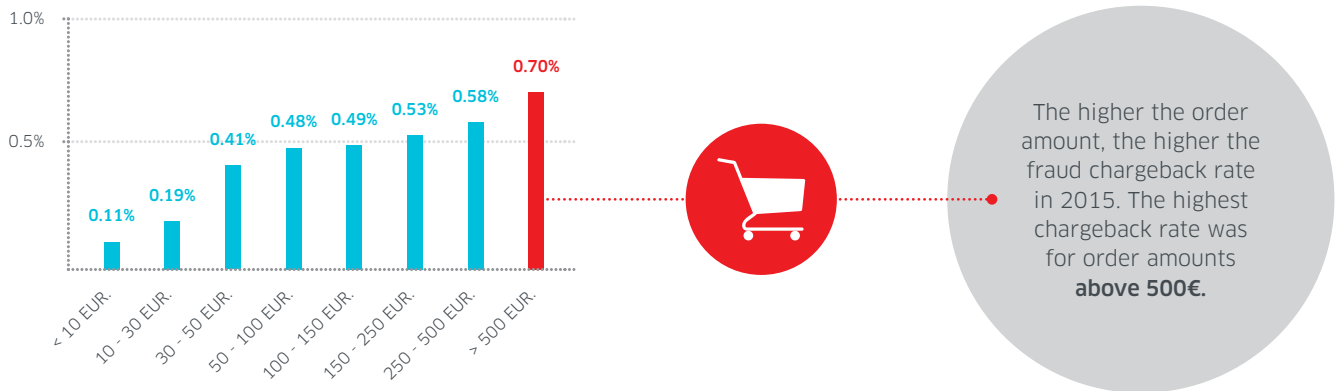
For large merchants, 3-D Secure adoption generally increased in 2015.

However, it is mainly used in risky industries such as Financial services, Retail, Ticketing, 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 (1.76%) or Media & eContent (3.1%).

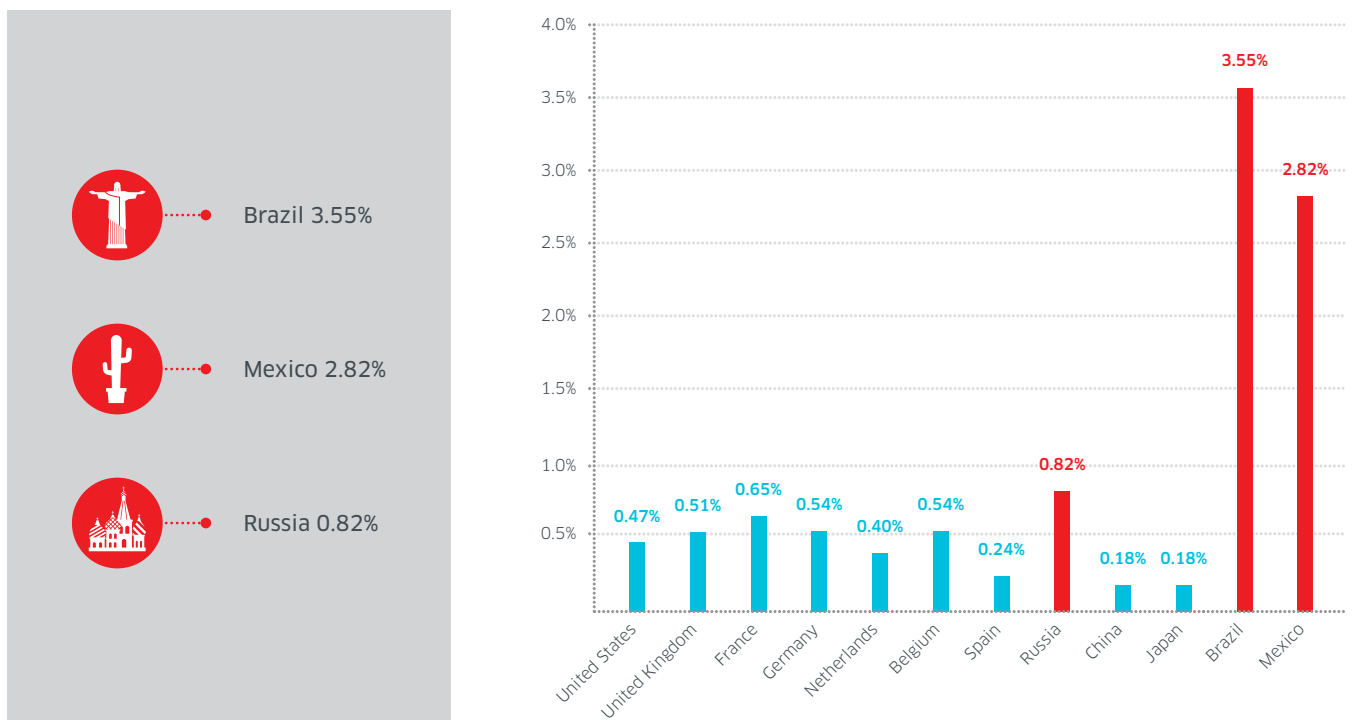
Fraud chargeback rate per order value

Percentage of fraud chargebacks (merchant-based average) based on order value - Large corporations



Fraud chargeback rate per consumer country

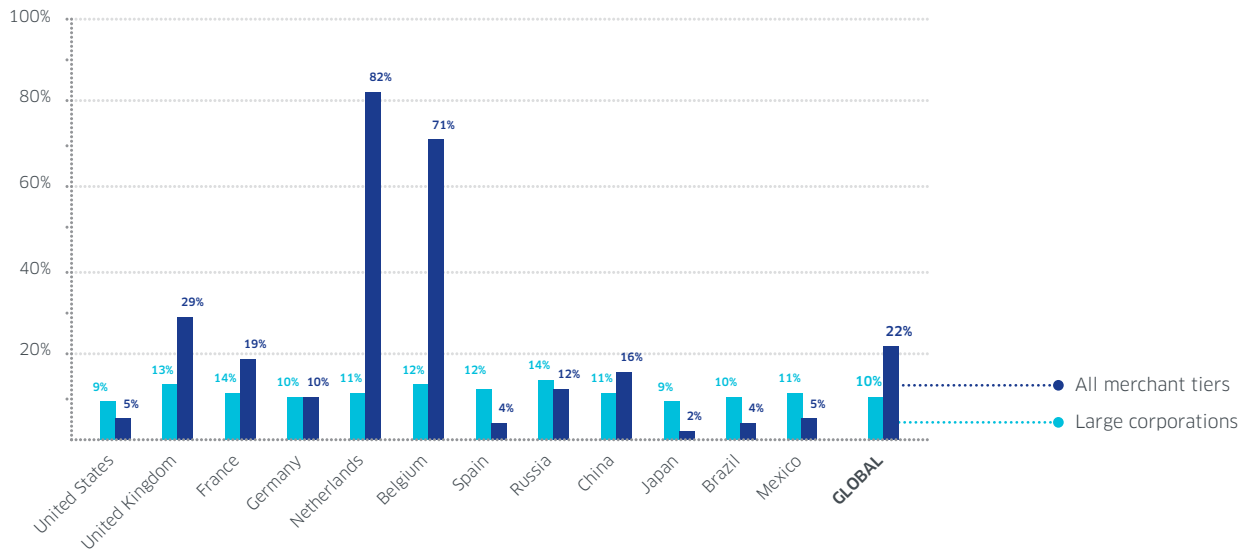
Percentage of fraud chargebacks (merchant-based average) based on consumer country - Large corporations



We see a slight overall increase in chargeback rates per consumer country. There is a decrease of chargeback rates in China, Japan, Spain and also the Netherlands, but a significant increase in Brazil, Mexico, Russia and the UK.

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 corporations and all merchant tiers



- For large corporations, overall adoption has increased to 10%, while across merchant tiers, the figure reaches 22%.
- Small merchants rely more on 3-D Secure to lower their fraud risk. Across all merchant tiers, adoption is highest in The Netherlands (82%), Belgium (71%) and The United Kingdom (29%).
- Overall, 3-D Secure adoption has increased for large corporations while across all merchant tiers the adoption rate has dropped from 34 to 22%.
- Countries with lowest adoption are Japan (9%), the United States (9%) and Germany & Brazil (10%).
- The higher the adoption, the higher the chance the consumer will drop off his/her order as he/she might not know how to proceed or might not be willing to perform this extra authentication step.

Data used for the 2016 global online fraud panorama

This 2016 global online fraud survey involves online transactions made between January 1 2015 and December 31 2015 by Ingenico ePayments merchants.