

 riskified

# A Crisis of Confidence

What consumers really think about merchants' fraud protections



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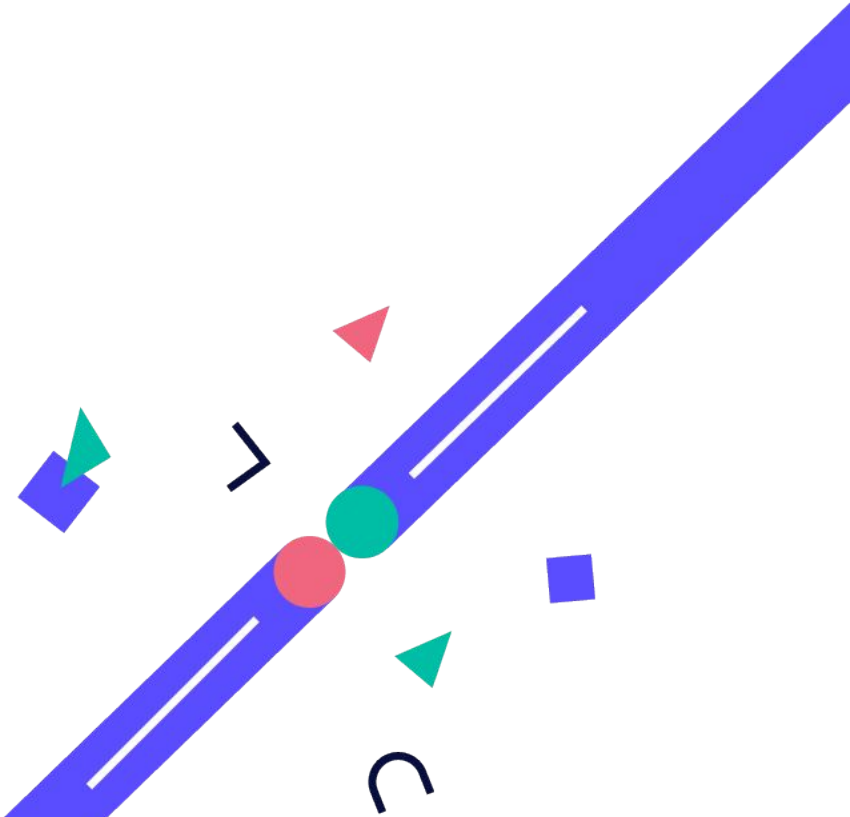
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# Executive Summary

When it comes to online shopping fraud, merchants and consumers don't see eye-to-eye.

The results of a new, extensive survey by Riskified, the eCommerce enablement and fraud-prevention solutions provider, show a dramatic difference between how retailers and consumers view the threat of fraud and who they say is to blame.

The research, which comprises 4,000 consumers and 400 retailers across the UK, France, Germany and the US shows that retailers give themselves high marks for fighting against fraudsters. More than half (55%) of all retailers stated that they were confident in their ability to prevent eCommerce related fraud. Shoppers, however, are not impressed. Only 34% of consumers said they trust in retailers' ability to prevent fraud.



**In the report, you'll find insights on:**

## **01 Consumer reaction to fraud**

The majority of the 4,000 shoppers we surveyed think retailers could be doing more to prevent fraud. Consumers are quick to blame retailers when there's a problem and will often stop shopping at an eCommerce site where they've been victimized. In this report, we'll look at the nature of this disconnect between consumers' perspective and merchants' perception and its implications for merchants across the globe.

## **02 Impact to eCommerce merchants**

Fraud is having a dramatic impact on eCommerce retailers' revenue, with merchants losing between 5% and 10% of their eCommerce revenue to fraud in 2020, according to our survey. An overwhelming majority of retailers reported that fraud attempts have increased dramatically since the start of the pandemic and expect them to continue to increase in 2021.

## **03 Regional fraud differences**

Ecommerce fraud is a global problem, but the consumer reaction differs based on where they live. Our report analyzes the regional disparities between shoppers surveyed in the United States, the United Kingdom, France, and Germany.

## **04 Becoming eConfident**

As we examined the results of the survey, it became clear that "true" confidence in eCommerce was a rare commodity. Consumers were nervous about the risk of fraud. Merchants were worried about the risk of both fraud and lost revenue.

At Riskified we call this type of true confidence in eCommerce "**eConfidence.**" It's when both consumers and merchants know that they are protected from fraud, and when retailers know they're not losing revenue to false declines.

In this report, we'll touch upon solutions available to merchants as they build eConfidence.

# Introduction

There's much to be said for confidence. When you feel confident, you tend to perform better. And when you act with confidence, people tend to assume you know what you're doing. But this is only true when your confidence is earned. Misplaced confidence has the opposite effect. When you're more confident than you should be, people tend to assume you never know what you're doing.

Misplaced confidence looks like recklessness. And in the eCommerce world, where fraud is a constant threat, a merchant who looks reckless will soon face a reckoning.

Thousands of merchants around the world think they're handling fraud pretty well and that consumers agree with them. But recent research suggests that many of these merchants are unknowingly suffering from the fallout of overconfidence.

Riskified recently conducted an extensive research project in which we polled 4,000 consumers and 400 retailers across the UK, France, Germany, and the United States.

Our goal was to learn how shoppers and merchants perceive the threat of eCommerce fraud, and whether they are confident it is being managed well.

More than half (55%) of all retailers in the survey said they were confident in their ability to prevent eCommerce-related fraud, but only 34% of consumers said they trusted retailers' ability to prevent fraud.

Our research also showed that the impact of fraud on retailers' bottom lines across the globe is severe.

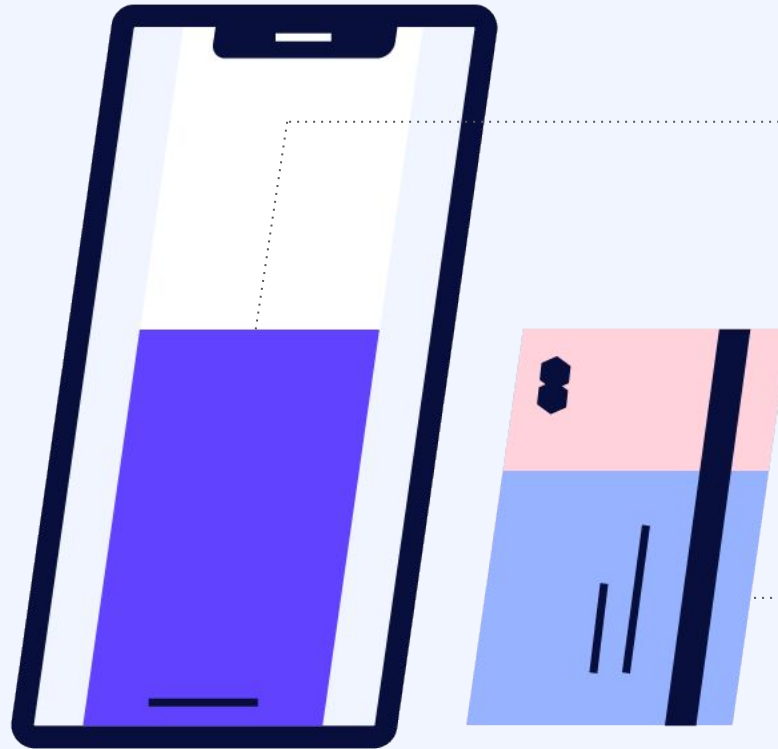
Some 26% of retailers said fraud is significantly damaging their profitability, with about one-third (34%) of retailers saying they had lost between 5% and 10% of their eCommerce revenue to fraud in 2020.

We surveyed:

4,000 consumers



400 retailers



55%

of retailers said they were confident in their ability to prevent eCommerce-related fraud

34%

of consumers said they trusted retailers' ability to prevent fraud



26%

of retailers said fraud is **significantly** damaging their profitability



34%

of retailers say they lost between 5% and 10% of their eCommerce revenue to fraud in 2020

01

# The Global Disconnect



Ecommerce fraud is a global problem. On that, everyone agrees. But new research from Riskified shows that merchants and consumers don't see eye-to-eye on a key issue in fraud prevention. Consumers are not particularly confident in merchants' ability to combat fraud.

One of the interesting findings in our research is that in some places consumers are more accepting of retailers' claims that they're working as hard as possible to tackle fraud. In other places, consumers have grown short of patience.

To measure the gap between how merchants and consumers view fraud prevention, we asked merchants to rate their confidence in their ability to prevent and manage online fraud. We then asked consumers to measure *their* level of confidence in merchants' fraud-prevention ability.

We then compared those responses across the globe and in individual countries. (See the **Methodology** section at the end of this report for details).

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**The real problem isn't the gap among countries, it's the gap between consumer and merchant perceptions.**

# Not all disconnects are equal

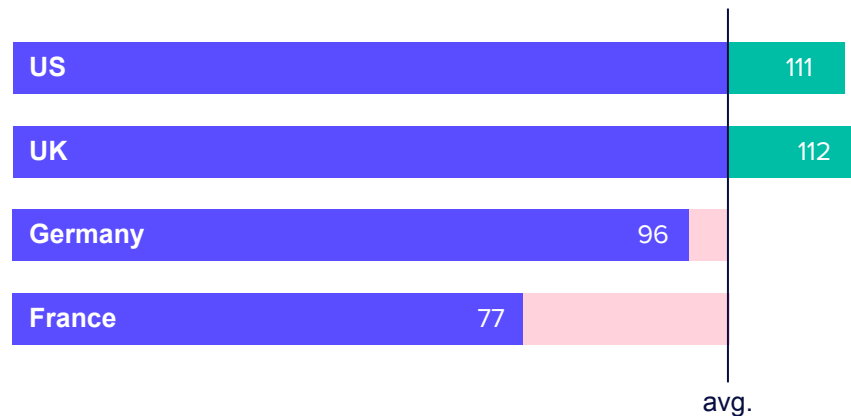
The confidence disconnect is a worldwide problem for eCommerce merchants. But the size of the gap between consumers and retailers varies widely among nations.

We created an eConfidence Index with a baseline of 100 based upon the average responses to the survey. A number above 100 indicates confidence higher than the average.

What we found was that:

Merchants in the US and UK are significantly more confident in their abilities to manage fraud in eCommerce than their peers in Germany and France, with France trailing far behind all other countries.

## MERCHANT ECONFIDENCE INDEX



That pattern repeats among consumers, although with less fluctuation than among merchants. Generally, US consumers were the most confident in merchants' ability to protect them from fraud while French consumers were the least.

## CONSUMER ECONFIDENCE INDEX



But the real problem isn't the gap among countries, it's the gap in perceptions between consumers and merchants in all the countries surveyed.

In our analysis, we compared the percentage of consumers who expressed confidence in eCommerce merchants' ability to prevent fraud with merchants' perception of how well they themselves address fraud.

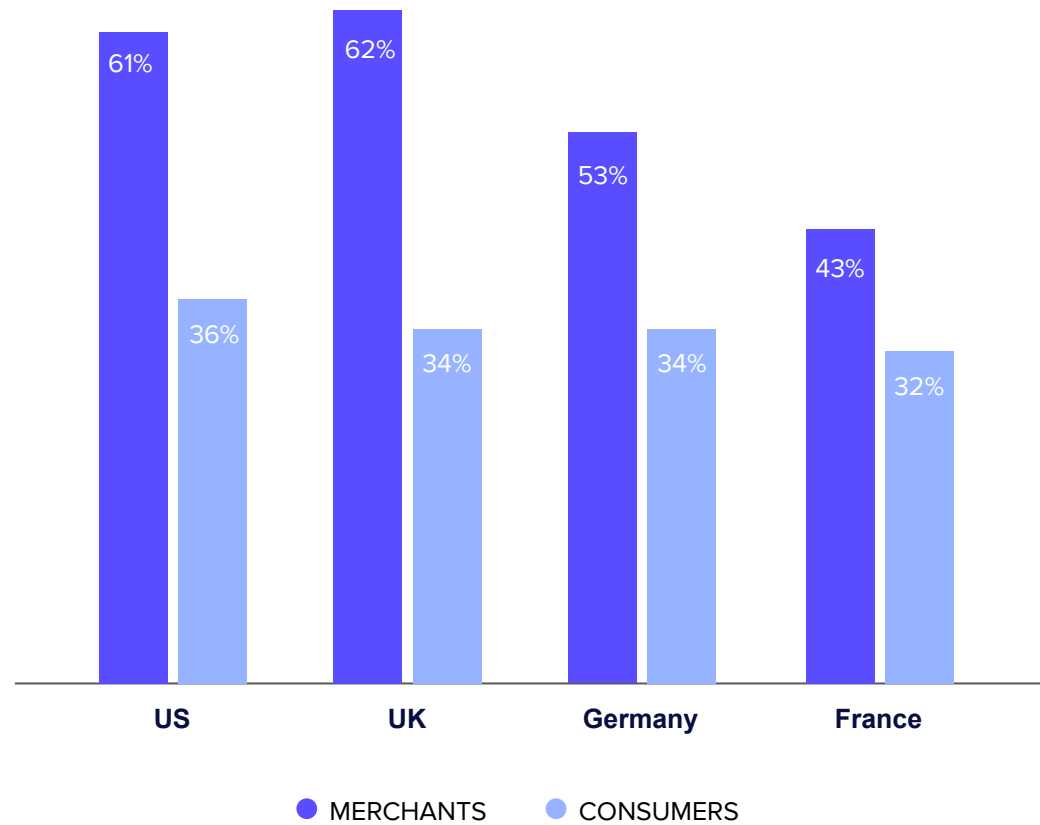
**There was not a single country surveyed where consumers felt as confident in merchants' abilities to stop fraud as did the merchants themselves.**



## CONSUMER ECONFIDENCE GAP - BY COUNTRY

Our analysis showed that merchants are **significantly** more confident in their ability to manage fraud than consumers believe them to be.

- This gap is largest in the US and the UK.
- This gap is narrowest in France because merchants themselves are significantly less confident there than in the other countries surveyed.



○ Source: Riskified's eConfidence Survey

02

# The United States

US consumers are angry about fraud. But the pandemic has convinced shoppers that the convenience of online purchasing is worth the risk. So they aren't giving up on eCommerce, but they will give up on individual merchants.

**22%**

**of US shoppers said they had been a victim of online shopping fraud in the past year**

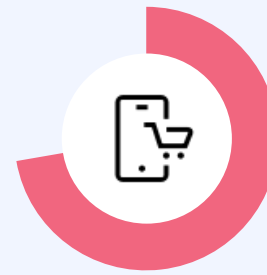


## Loss of Faith

According to our survey, more than a fifth of US consumers said they had been the victim of some form of online shopping fraud in just the past year.

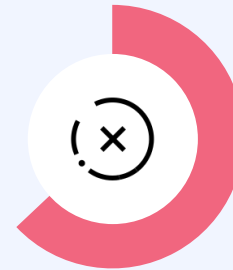
Research we [published](#) in early 2019 showed that a whopping **49% of US consumers said they'd been victims of credit card fraud at some time in their lives.**

And a remarkably large number of these victims blame the merchant.



**71%**

of US consumers think the retailer could have done more to prevent them from becoming a victim of online shopping fraud



**66%**

of consumers said they wouldn't buy from that shop online again



**25%**

of respondents deleted their online shopping accounts after becoming a victim to online shopping fraud



**40%**

place more blame on the retailer where their account was compromised than on the fraudster (33%)

Merchants in the United States recognize the problem. They have little choice. Fraud in the US is hurting business.

- Just under a third (29%) of US merchants say fraud is significantly hurting their profitability
- 44% of US merchants reporting losing 5% or more of their annual eCommerce revenue to fraud (combination of all response figures above 5%)
- 46% of merchants said that promo abuse has the biggest negative impact on revenue, followed by Account Takeovers (43%), Friendly Fraud (41%) and Card Not Present fraud (37%)

Retailers aren't feeling particularly optimistic about the future either, US merchants say fraud is accelerating and they expect things to get worse before they get better.

- 82% of companies have seen an increase in fraud attempts since the pandemic began
- 69% of merchants expect fraud attempts to continue increasing over the next year

In fact, one of the few areas where consumers and merchants agree is that things are getting worse.

More than a third (37%) of US consumers said they are more worried about online shopping now than just a year ago.

Roughly the same percentage (35%) of consumers said they expect to grow more worried about falling victim to some form of fraud while online shopping during the next year.

And a large majority of American consumers (63%) said they are concerned their card details could be stolen in the future.

And US consumers fear that eCommerce fraud will grow more sophisticated in the future. Some 45% of US consumers think merchants will find it harder to prevent fraud as criminals grow more sophisticated in their methods.

# 45%

**of US consumers think retailers will find it harder to prevent online fraud as criminals hone their tactics**

03

# The United Kingdom



Merchants in the UK are feeling the pain of eCommerce fraud.

A third (33%) of them say fraud is **significantly** hurting their profitability. The biggest impact, according to 60% of the merchants we surveyed, is Card Not Present fraud, followed by promo abuse (48%), and Account Takeovers (39%).

UK consumers are feeling pain too. Some 15% of UK consumers surveyed say they've been the victims of some kind of online shopping fraud in the past year.

UK consumers also say they doubt that merchants can handle the threats posed by eCommerce fraud.

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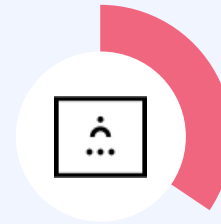
**UK consumers doubt retailers can handle fraud.**



## Placing blame

In the UK, the problem is similar to that in the States. Merchants recognize the threat of fraud, but perhaps don't recognize that consumers blame them.

More than  
**two-thirds**  
of UK consumers said they  
wouldn't buy online again from  
a shop where their account  
was compromised



**39%**

of UK consumers say they would blame the merchant if their account was compromised



**27%**

of online shoppers said they are growing more worried about online shopping



**51%**

of all UK shoppers we surveyed believe that retailers will find it even harder to prevent fraud over the next year



**82%**

of merchants in the UK say they expect to increase their ability to mitigate eCommerce fraud in the next 12 months

And that increase would come on top of a performance that British merchants already rank highly. A full 82 percent agree with the statement “Our company is doing everything it can to stop credit and debit card fraud.”

Similarly, 87% of the the merchants we surveyed in the UK agree with the statement “I am confident our company has all the tools we need to fight credit and debit card fraud” while 43% agree with the statement my company has “dramatically improved our ability to prevent fraud attempts” in the past year.

In particular, more than half (51%) of merchants surveyed said they are “extremely confident” their company is able to prevent all Account Takeover attacks. Slightly fewer merchants surveyed (44%) report being “extremely confident” in their ability to combat promo abuse.

The problem for UK merchants, however, is revenue loss caused by fraud-prevention methods that add friction for consumers. UK merchants ranked 3D Secure or other two-factor authentication as having the largest negative impact on revenue.

# 39%

**of UK consumers say they would blame the merchant if their account was compromised.**



04

# France



Attitudes about online fraud in France are different from those in other nations. Our survey suggests that while the risks to consumers are recognized as substantial, online shoppers shrug and say *c'est la vie*.

For their part, merchants we surveyed have concerns about the level of security at their companies.

- 14% of merchants we surveyed in France feel their company could do more to prevent promo abuse
- 15% of merchants feel their company could do more to prevent friendly fraud
- 16% of merchants feel their company could do more to prevent Card Not Present fraud

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**It's French consumers, not French merchants, who appear overconfident.**



# An air of resignation

In France, the story is a little different. French merchants seemingly aren't doing as much to prevent fraud as do retailers in other countries. Fewer than half (44%) of the merchants we surveyed use a solution to prevent account hacking. That's the second lowest score we recorded (Germany merchants reported 39%) and much less than in the US (51%) and UK (60%).

Perhaps that explains why France has the lowest overall eConfidence score: 77, well below Germany at 96, the US at 111 and the UK at 112.

But consumers seem resigned to this state of affairs. In other words, it's French consumers, not French merchants, who appear overconfident.

- 68% of French consumers surveyed said they think retailers could have done more to prevent fraud
- 17% of respondents said they were victims of online fraud in the last 12 months

- 59% said they are concerned their card details could be stolen, while 33% are afraid their data will be sold to third parties
- In case of online fraud, 37% of respondents would consider the retailer responsible for it

Yet a surprisingly high percentage of French consumers simply shrug off their fear of eCommerce fraud and their distrust of merchant's anti-fraud efforts.

Nearly two-thirds (63%) of consumer respondents in France claim to be confident when doing online purchases.

And roughly half of French consumers (50%) claim their online purchases will increase in the next 12 months.

05

# Germany



No one in Germany seems particularly optimistic about the battle against online fraud. Nearly half of both merchants and consumers in Germany are worried about online fraud in the future, according to our survey results.

Almost half of the companies (49.5%) surveyed expect attacks to continue to increase, and 11% even expect them to increase drastically.

Among German consumers, one in two (51%) think retailers will have a harder time spotting fraudulent purchases; while 42% also fear that their data will probably be sold to third parties or that their card data could be stolen in the future (40.5%).

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**It will get worse ... and merchants will get the blame.**

eConfidence survey

# Looking for someone to blame

German consumers are harsh in their appraisal of how merchants battle fraud. 37% of German shoppers say they would blame the retailer if fraud occurs, while only 35.8% would blame the fraudster.

And who can blame them?

The percentage of German merchants using a solution to stop account takeovers was the lowest among all the countries surveyed: 39%.

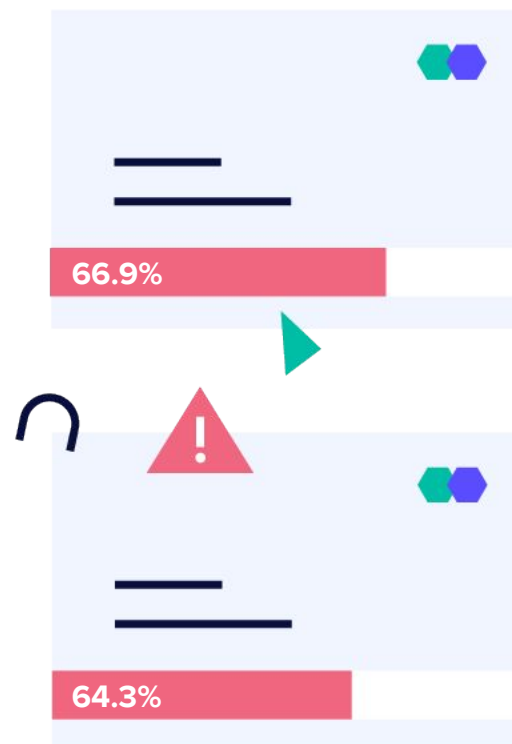
More than two-thirds (67%) of German consumers who have fallen victim to fraud believe the retailer could have done more to prevent it from happening.

Meanwhile, 72% of all German consumers surveyed said they are worried about becoming victims of online fraud.

Complicating matters is that if fraud were to occur, 64% of consumers in Germany told us they would definitely not order online from this company again.

Trust among German consumers varies by the merchant's location and the nature of what is sold.

More than a third (37.5%) told us they have just as much trust if the online shop is based in another country; while 29% have slightly less trust in eCommerce merchants beyond their nation's borders.



**67% of German consumers who have fallen victim to fraud believe the retailer could have done more to prevent it**

**64% of consumers in Germany told us they would definitely not order online from this company again**

06

# Managing fraud with confidence



Fighting fraud effectively requires a nuanced approach.

Being too lenient causes losses for merchants. But being overly conservative can anger consumers and cut into eCommerce revenue.

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**Online merchants are forced to make a difficult tradeoff of sacrificing growth for security or vice versa.**

# False declines

Global eCommerce sales grew 28% to approximately \$4.3 trillion in 2020 compared to 2019 and are expected to reach approximately \$6.4 trillion by 2024, according to [eMarketer](#).

As eCommerce grows, fraudulent activity becomes more prevalent and complex. To further complicate things, consumers increasingly expect fast and frictionless shopping experiences. Shoppers today are willing to complete only the minimum taps/clicks on their path to purchase.

Merchants must decide instantaneously which transactions to accept and which to deny. They are forced to make a difficult tradeoff, sacrificing growth for security or vice versa.

Making things worse, policies implemented by payment gateways and banks also introduce considerable friction points and increase the risk of false decline by third parties.

According to The Economist, an estimated 10% to 15% of online orders are declined by issuing banks. Riskified research shows that 72% of payment declines are placed by legitimate customers who can afford to make the purchase.

Our survey revealed that only 34% of consumers trust retailers' ability to prevent fraud. It also showed that customers tend to blame merchants for fraud experienced on their site.

Regardless of who's to blame, it's clear that it falls to merchants to address fraud, and to do so while also protecting revenue and their relationships with customers.

Merchants often attempt to solve these problems using a variety of legacy or in-house solutions and manual processes. These options are often expensive, outdated, and ineffective at accurately distinguishing between legitimate and fraudulent transactions.

Even with significant investment, many merchants cannot solve the problem effectively and are distracted from serving consumers and realizing their full eCommerce potential.

# Building confidence

What can merchants do to mitigate the threat of fraud to their revenue while also protecting their reputations?

The solution is to inspire *true* confidence in eCommerce among consumers. To do that, merchants need to have the ability to mitigate fraud while providing frictionless shopping experiences.

Most merchants will turn, rightly, to technology. But a word of caution is required.

Too often, fraud prevention measures introduce customer friction. For example, two-factor authentication—which can stop a fair number of fraudulent transactions—can also cause frustrated customers to abandon their shopping carts.

As a result, two-factor authentication was ranked as the anti-fraud solution that is the most damaging to revenue for UK and French retailers according to our survey, and the second most damaging for US and German retailers.

At Riskified, we have spent the last eight years building an eCommerce risk management platform that allows online merchants to create trusted relationships with consumers.

Leveraging machine learning and a global merchant network, the platform accurately identifies the individuals behind online interactions without introducing friction for shoppers.

In addition to helping merchants better manage CNP fraud, our products protect customers from malicious account takeover attacks, combat payment failures at checkout, and allows merchants to block abuse while upholding consumer-friendly policies.

By making eCommerce safe, accessible and frictionless, we are creating a safe and prosperous future that both consumers and merchants can feel confident about.

We call this type of confidence “**eConfidence.**”



# Conclusion

The survey findings reveal that eCommerce fraud is significantly impacting merchants' profitability *and* eroding customers' trust. Making things worse is the gap between merchants' and consumers' perceptions.

While most retailers are confident in their ability to prevent fraud, the vast majority of consumers don't think merchants are doing enough.

It's up to business leaders to bridge the eConfidence gap. To build trust and allow customers to confidently buy online, merchants must stop fraud without introducing undue friction or declining legitimate shoppers.

Merchants partnering with Riskified can confidently increase sales without risking customer relationships. Our confidence in the accuracy of our technology has allowed us to pioneer the Chargeback Guarantee and other innovative products.

If you'd like to learn more about Riskified's products or technology, drop us a line at [hello@riskified.com](mailto:hello@riskified.com).

## More About Us

Riskified's platform accurately identifies the individual behind each online interaction, resulting in frictionless experiences for your customers. Data from our global merchant network fuels proprietary machine learning models that drive a sophisticated decisioning engine. The platform supports all our products, delivering fast decisions that allow you to generate additional eCommerce sales and reduce overhead costs.

**For more information, visit our [website](#) or contact us directly: at [hello@riskified.com](mailto:hello@riskified.com)**



Written by  
**Paul Conley**

# Methodology

The benchmark survey was fielded in March 2021. A total of 400 eCommerce professionals (merchants) were surveyed in four countries (US, UK, Germany, France) along with 4,000 online shoppers (consumers) in the same countries.

The **Merchant eConfidence index** was based on the answers to six questions that assessed a merchants' current confidence and projected confidence (next 12 months) in managing and preventing eCommerce-related fraud.

Merchants had the option of answering strongly agree, agree, neutral, or disagree. Each question was weighted equally. Each *strongly agree* answer was scored as 10 points and each *agree* answer was scored as 5 points. The scores were added up and the total divided by 400. This average score could then be compared to scores by country, yielding an index for each country.

The **Consumer eConfidence index** was based on the answers to five questions that assessed online shoppers' current confidence and projected confidence (next 12

months) in merchants' ability to manage and prevent eCommerce-related fraud. Again, the answer options were strongly agree, agree, neutral, and disagree.

Each question was weighted equally. Each *strongly agree* answer was scored as 10 points and each *agree* answer was scored as 5 points. The scores were added up and the total divided by 4000. This average score could then be compared to scores by country yielding an index for each country.

The **Consumer eConfidence Gap** was identified by comparing shopper confidence in merchants to prevent eCommerce related fraud to merchants' confidence to do the same (see graph on page 9 of this report).

To calculate the gap, the percentage of respondents who answered *strongly agree* and *agree* to each of the confidence-related question were totaled and then divided by the number of questions and number of respondents.