



Fraudsters Pocket \$3 Billion From U.S. eCommerce in 2006

CyberSource®

CyberSource logo. (PRNewsFoto)

MOUNTAINVIEW, CA USA 12/08/2004

8th Annual CyberSource Survey Shows Automation Growing as Merchants Fight Losses

Key take-aways from this year's survey include:

- Dollar losses from eCommerce fraud continue to grow. Fraudsters will siphon approximately \$3 billion(1) from U.S. eCommerce in 2006, a 7% increase over 2005.
- The percent of revenues lost to fraud improved slightly to 1.4%, in 2006, down from 1.6% the year before. This is the third consecutive year to show a decline in the percentage rate of revenue loss, but because eCommerce sales continue to grow 20+% each year, dollar losses to U.S. eCommerce continue to mount.
- Approximately 1% of accepted orders ultimately turn out to be fraudulent, but merchants also reject 4% of their incoming orders due to suspicion of fraud-some valid orders are almost certainly being left on the table.
 - Chargeback statistics may represent only half of the actual impact of fraud.
- Though international eCommerce is a major avenue of growth for merchants, orders coming from abroad tend to be far riskier than those from the U.S. or Canada. Merchants say international orders are 2 1/2 times more likely to be fraudulent.
 - In 2005, survey data showed that all sizes of merchants were reviewing more orders manually. That trend may have peaked. This year, merchants say 23% of their orders are reviewed manually, down from 26% the year before.
 - Merchants are increasingly automating their fraud management operations. This year's survey finds merchants are using more fraud detection tools. Also, the number of merchants using automated decision systems has risen 30% over 2005.

MOUNTAIN VIEW, Calif., Nov. 14 /PRNewswire-FirstCall/ -- Results of the eighth annual CyberSource Corporation (Nasdaq: **CYBS**) survey of eCommerce fraud, released today, show that U.S. merchants will lose as much as \$3 billion in eCommerce revenue to fraud in 2006, up from \$2.8 billion the year before. As a percent of revenue, fraud losses will be slightly less this year-merchants expect to lose 1.4% of revenue, down from 1.6% the year before. This continues a long-term downward trend. In 2005, the reported fraud rate was 1.6%, and in 2004 it was 1.8%. Because eCommerce is growing so rapidly, even a declining percent of revenue continues to yield higher dollar losses.

(Logo: <http://www.newscom.com/cgi-bin/prnh/19990513/CYBRSOURCELOGO>)

Order rejection errors add to the challenge

Overall, merchants say 1.1% of accepted orders later turn out to be fraudulent. This number has been relatively steady for the last 3 years (1.0% in 2005, 1.3% in 2004). But merchants also say they are rejecting 4% of orders on suspicion of fraud. Even if only 1 out of 5 of those prove to be valid, merchants will have turned away another \$1.6 billion in sales -- likely losing them to a competitor.

Chargebacks only part of the picture

CyberSource has historically asked merchants to estimate the percent of orders they accept that later turn out to be fraudulent, including those

orders charged back through the banking system as well as any direct credits or reversals they issue. According to merchants in 2006, fraud chargebacks only represented 35% of the fraud they experienced. 65% were handled at the merchant level through reversals or credits to the consumer.

International orders

Merchants are responding to the opportunity represented by international eCommerce -- 61% of merchants accept orders from outside the U.S. and Canada, and those orders represent 17% of their total order volume. But this business carries greater fraud risk. Survey respondents said that in 2006, 2.7% of orders originating from outside the U.S. and Canada were fraudulent, a rate 2.5 times higher than the rate associated with U.S. and Canadian orders (1.1%). Merchants reject 12.7% of international orders, consistent with last year's findings, a rate nearly 3 times that of orders originating in the U.S. or Canada.

Merchants review one in four online orders

In response to fraud risk, more merchants than ever before are reviewing some orders manually. 81% of merchants in the sample now engage in manual review, compared to 73% last year. While the practice of manual review has increased, the rate of review may have peaked in 2005. On average, merchants who perform manual review are reviewing 28% of their orders, a 20% change from 35% in 2005. Larger merchants perform better than the average, citing review of one in seven orders.

Greater automation in anti-fraud efforts

In response to growing fraud losses and ever increasing eCommerce volume merchants are turning to tools and systems that will automate and streamline fraud management efforts. Overall, the use of anti-fraud tools grew 14% from 4.2 to 4.8 tools utilized per merchant. The largest merchants, those selling over \$100 million online annually, average nearly 8 tools. Almost every tool the survey addressed showed an increase in use (where comparative data is available). Those showing the greatest increase included positive lists (10 point increase to 21%), order velocity monitoring (10 point increase to 33%), IP geolocation (10 point increase to 35%) and company-specific fraud screens (10 point increase to 38%). Positive lists are "known good" customers; order velocity monitoring assesses purchases over time by product, total dollar amount, frequency, product mix and similar measures; IP geolocation tests evaluate the risk of an eCommerce transaction based on the "electronic address" of the purchaser as compared to other geographic data supplied with the order.

"eCommerce merchants are throwing every available weapon at fraud," said Doug Schwegman, CyberSource director of customer and market intelligence. "The increase in use of anti-fraud tools and of case management systems is paralleled by lower review rates and a 50% jump in reviewer efficiency. The continuing growth of eCommerce orders means we need to see continued increases in merchant fraud management efficiencies to keep profits rising."

Merchant use of decision systems, systems that apply merchant-established business rules to inbound orders as they screen transactions for fraud, increased by 30%.

To obtain a copy of the survey results -- for journalists: call or email Bruce Frymire (650-965-6042, bfrymire@cybersource.com). For all others: please visit <http://www.cybersource.com/fraudreport/>.

The Eighth Annual CyberSource Fraud Survey was sponsored by CyberSource Corporation and conducted by Mindwave Research. The survey was fielded September 14 through October 6, 2006 and yielded 351 qualified and complete responses. The sample was drawn from a database of companies involved in electronic commerce activities. Incentive to respondents included a summary of the research.

About CyberSource

CyberSource Corporation is a leading provider of electronic payment and risk management solutions. CyberSource solutions enable electronic payment processing for Web, call center, and POS environments. CyberSource also offers industry leading risk management solutions for merchants accepting card-not-present transactions. CyberSource Professional Services designs, integrates, and optimizes commerce transaction processing systems. Over 16,000 businesses use CyberSource solutions, including half the companies comprising the Dow Jones Industrial Average. The company is headquartered in Mountain View, California, and has sales and service offices in Japan, the United Kingdom, and other locations in the United States. For more information, please visit CyberSource's web site at <http://www.cybersource.com> or email info@cybersource.com.

NOTE: CyberSource is a registered trademark in the U.S. and other countries. All other brands and product names are trademarks or registered trademarks of their respective companies.

(1) Dollar losses are estimated by applying the survey data on anticipated

% revenue lost to fraud to Forrester Research's projection of U.S. eCommerce revenues in 2006 (\$211.4 billion).

SOURCE CyberSource Corporation

Related links:

• <http://www.cybersource.com/>

Photo Notes:<http://www.newscom.com/cgi-bin/prnh/19990513/CYBRSOURCELOGO>

AP Archive: <http://photoarchive.ap.org>

PRN Photo Desk, photodesk@prnewswire.com

Issues of news releases and not PR Newswire are solely responsible for the accuracy of the content.

Terms and conditions, including restrictions on redistribution, apply.

Copyright © 1996- 2006 PR Newswire Association LLC. All Rights Reserved.

A **United Business Media** company.