

SECUREBUY - MAGENTO 2013 FRAUD REPORT



PRESENTED BY

SecureBuy
A SIGNATURELINK COMPANY

EXECUTIVE SUMMARY

The Magento SecureBuy 2013 Fraud Study collected responses from 378 merchants within the Magento community, asking about their anti-fraud efforts and what strategies they employ in order to protect themselves from the increasingly complex world of payment fraud.

Merchants are becoming more aware and are beginning to educate themselves on the dangers of fraud. As a result, they are finally taking steps to address it. They recognize that proper fraud screening is a necessary process. However, this industry-wide revolution is still a work in progress: up to 30% of domestic merchants and 57% of international merchants are still exposing themselves completely to fraudsters by not using any form of fraud screening, and those merchants who are protecting themselves are using an average of three separate fraud screening tools.

According to the survey participants, manual review is being widely used and adopted within the industry; over 40% of merchants surveyed report that they use manual review for at least some of their transactions. Manual review is an expensive proposition that lends itself to human error, false positives and the associated cost is nearly impossible to recover. Fortunately however, merchants are becoming aware of the technologies currently available to help reduce, and in some cases, completely remove the need for manual review.

Chargebacks continue to present a challenge for Magento merchants. Merchants report that nearly 50% of all chargebacks are going unanswered! Furthermore, many merchants proactively credit or refund customers as a way of avoiding chargebacks, which makes the phenomenon more difficult to diagnose and potentially puts their ability to process credit cards in jeopardy.

Merchants are recognizing that obtaining a customer signature is one of the best defenses against chargebacks and friendly fraud; however, many merchants do not realize or understand how to obtain a signature for a CNP transaction.

One of the most disturbing trends noted is that merchants are not compliant with regards to their Terms and Conditions. In the United States, the FTC and CFPB best practice guidelines require that the Terms and Conditions of the sale are displayed in-line - meaning that they are not in the form of a check box using pop-ups links, rather they are displayed in plain text at the Point of Sale within the checkout page. All of the merchants surveyed admitted to collecting consent to their T's & C's through non-compliant means such as using pop-ups or links. This trend needs to change now: not just for the sake of following regulations, but in the interests of honest customer service.

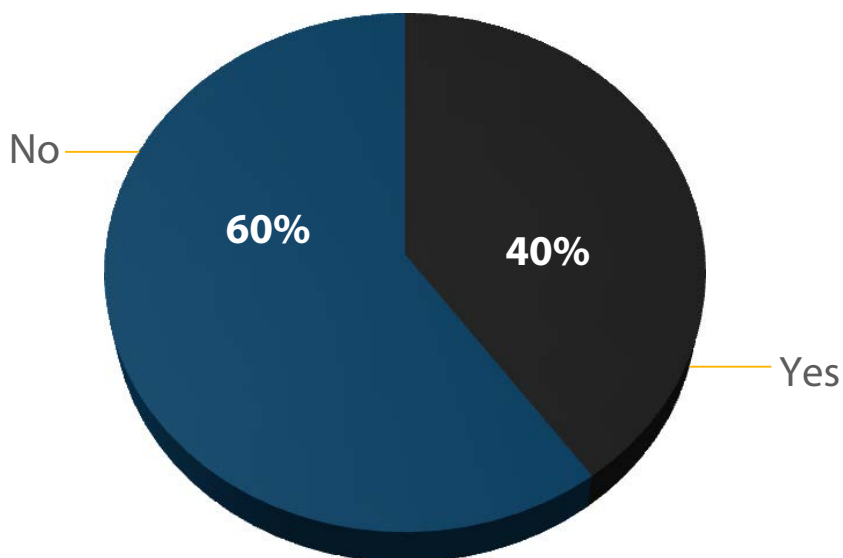
Recognizing the Danger

The threat posed by fraud is considerable.

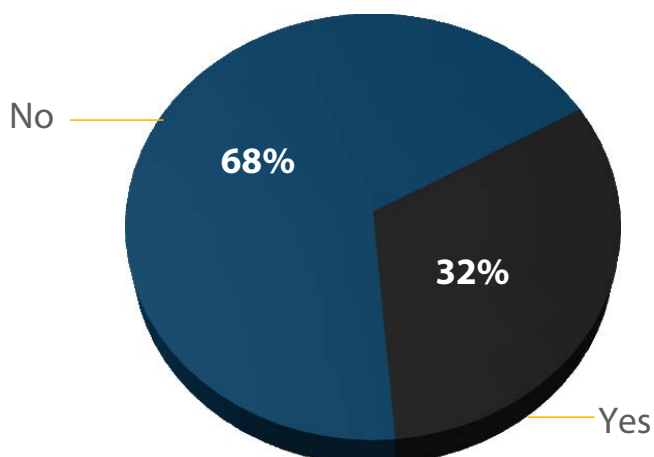
CNP merchants are now paying \$3.10 in costs for each dollar of fraud lost. Fortunately, merchants are becoming increasingly aware of these dangers. Merchants are searching for effective ways to protect themselves from fraud, and they recognize that traditional fraud screening alone will no longer cut it.

Are you currently using payer authentication services?

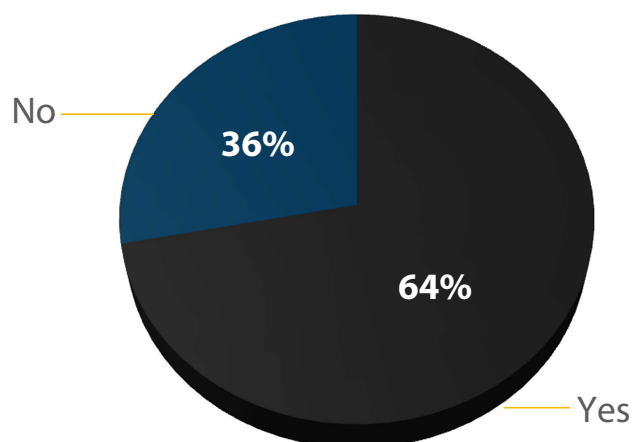
Merchants Overall



Merchant Revenue Over \$25MM



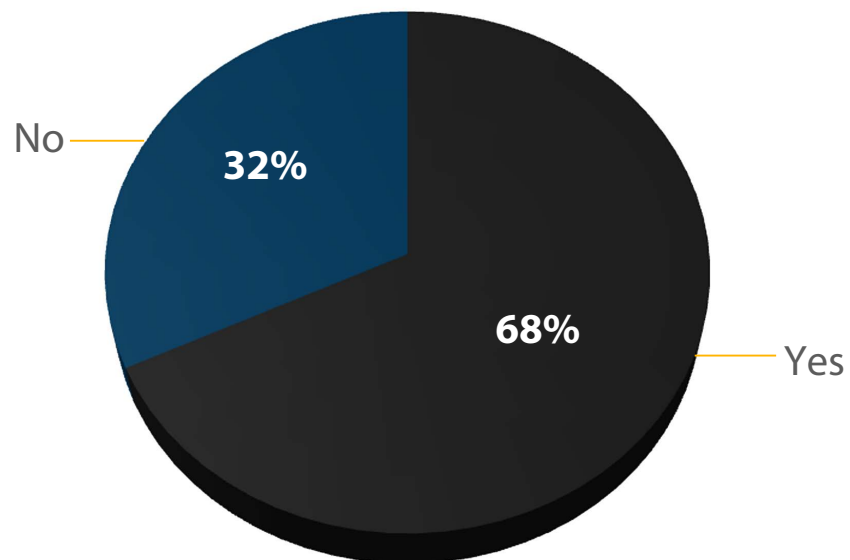
International Merchants



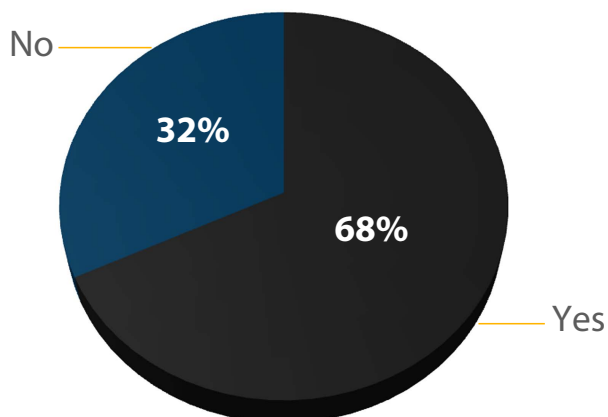
Pre-fraud screening prior to payment gateway authorization is becoming a necessary part of doing business in a CNP environment. However, a surprising and alarming 30% of all of the domestic merchants and 57% of international merchants surveyed do not perform any pre-fraud screening prior to payment gateway authorization to reduce traditional fraud and processing expenses. As a result of this, merchants continue to hold themselves fully exposed to fraudsters. Those who do, end up using an average of three different fraud screening tools.

Do you perform pre-fraud screening prior to payment gateway authorization to reduce processing expenses?

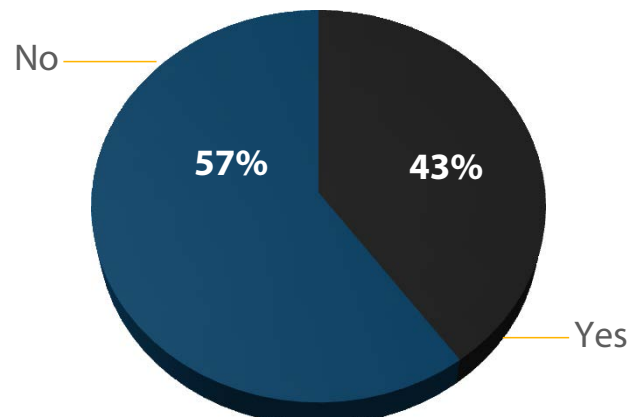
Merchants Overall



Merchant Revenue Over \$25MM



International Merchants

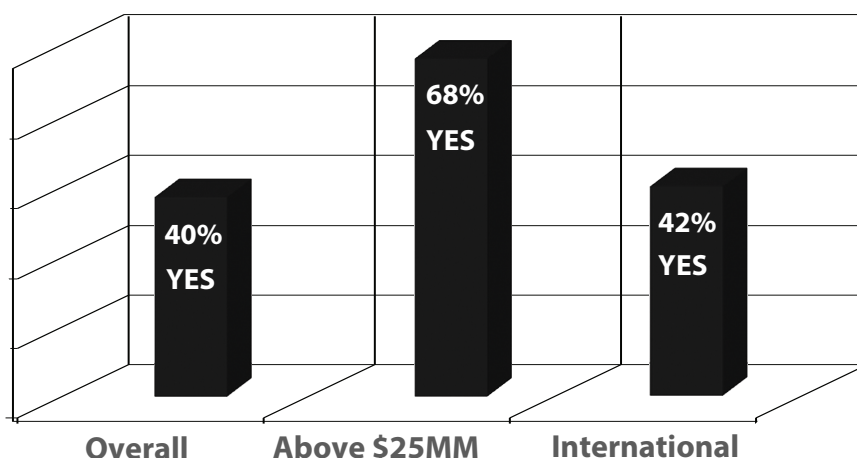


Automation and Manual Review

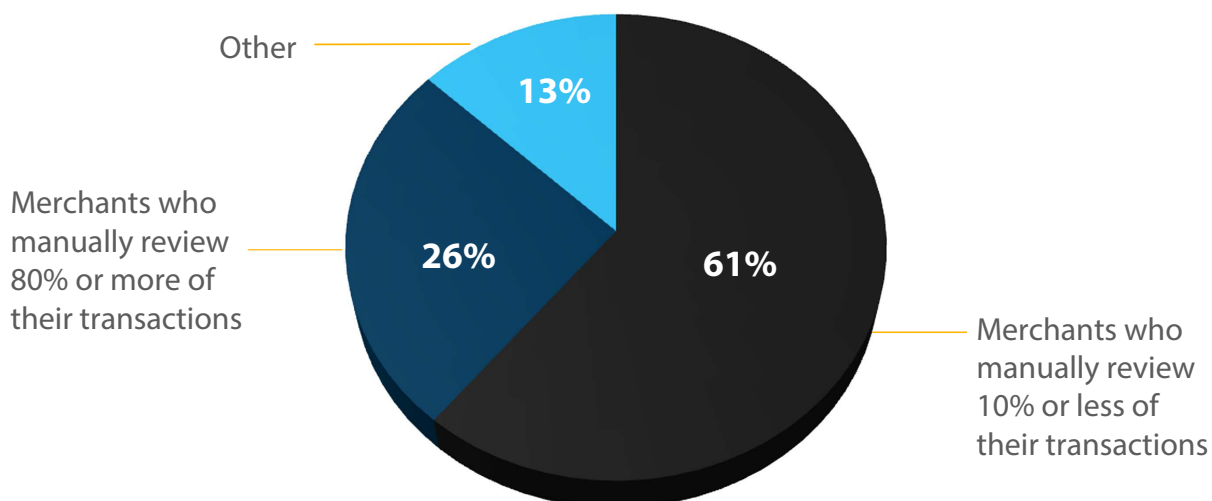
Merchants are becoming increasingly aware that traditional fraud screening is inadequate

Only 30% of the international merchants surveyed indicated that 100% of their fraud screening applications were automated, and a mere 20% of all others indicated the same. In addition, nearly 50% of all of the merchants surveyed indicated that they are using more than one fraud screening tool.

Does your current fraud screening program require manual review of transactions suspected of fraud?



What percentage of your total transactions are manually reviewed for fraud?



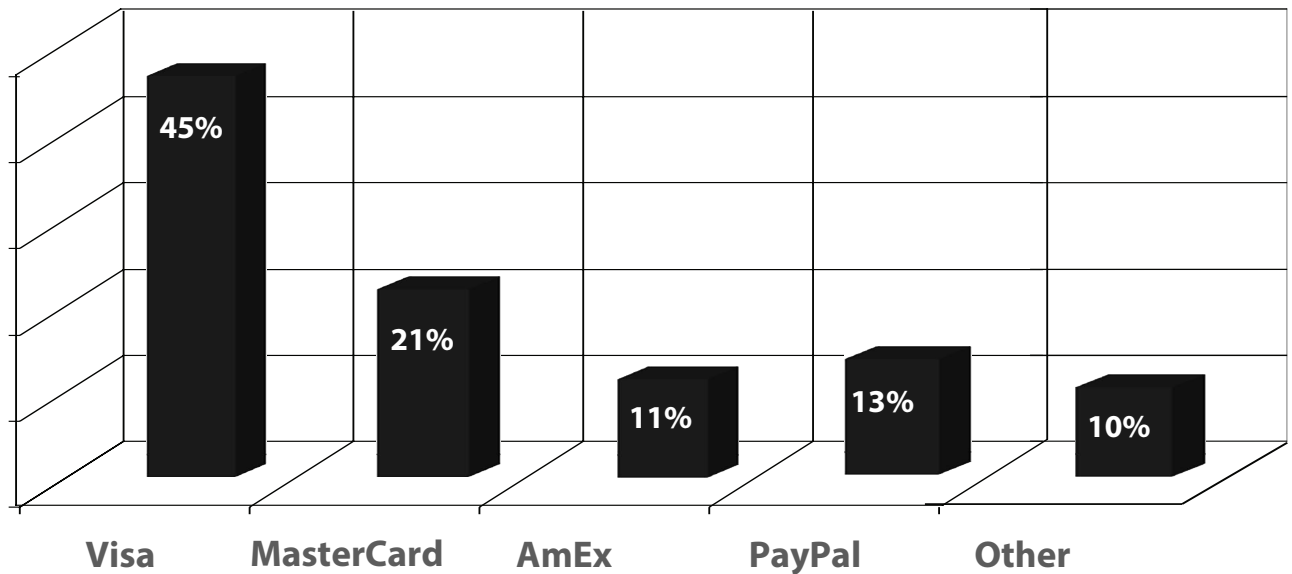
Other Findings:

The manual review of questionable transactions is costing merchants millions of dollars: there is a serious need to automate the fraud screening process.

Managing Chargebacks

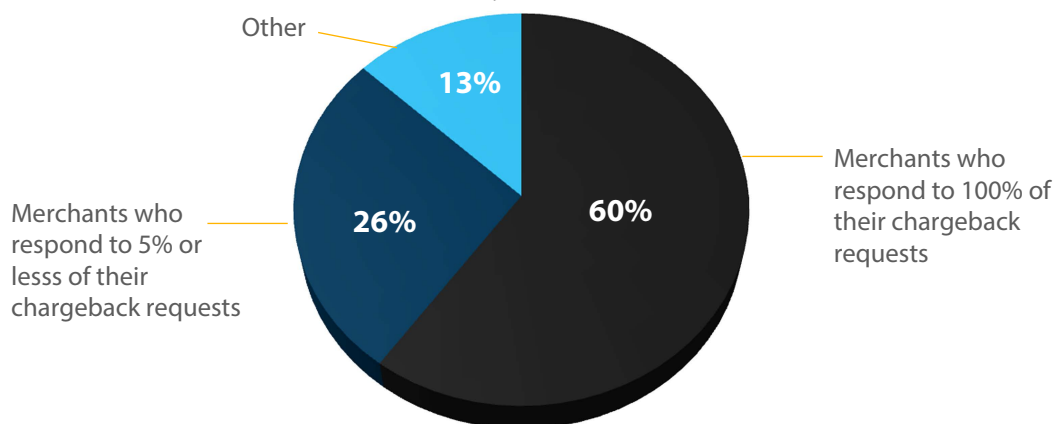
The majority of all chargebacks still come from consumers who use Credit Cards

**What payment type do you receive
the most chargebacks from?**



On average, globally, merchants are responding to only 54% of all chargeback / retrieval requests issued. The data speaks for itself, on average; nearly 50% of all chargebacks are going unanswered which translates into millions of dollars in lost revenue per year.

**What percentage of
chargeback or retrieval
requests do you respond to?**



Other Findings:

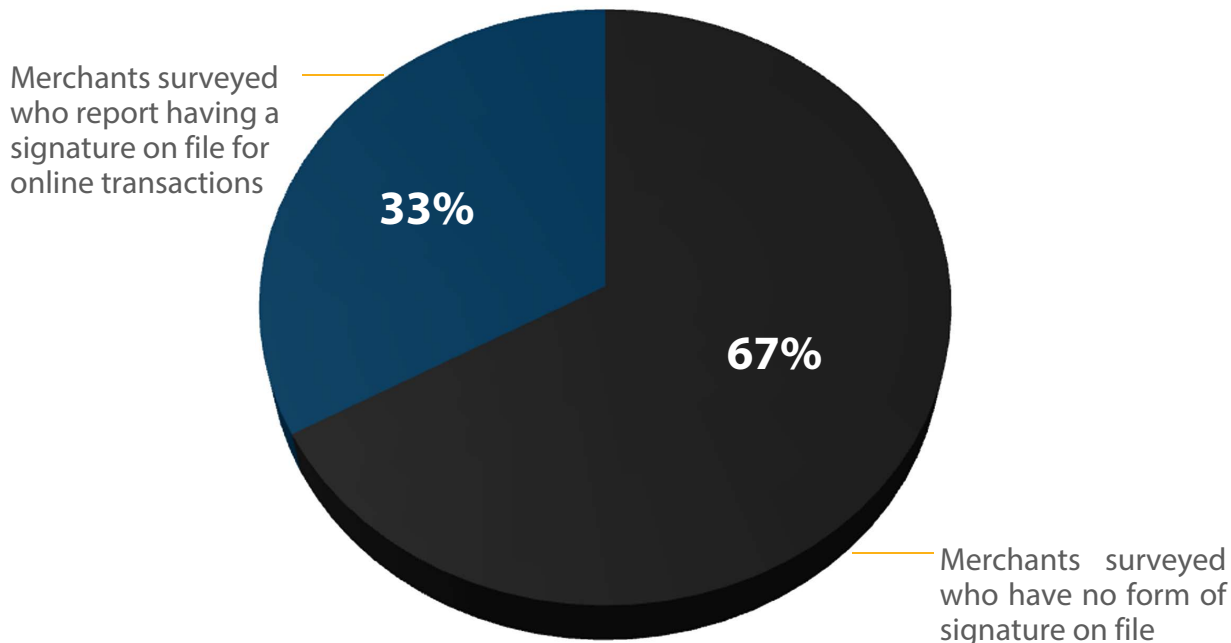
The survey also found that international merchants contest chargebacks less frequently than merchants in North America. Only 47% of international merchants surveyed respond to 100% of their chargeback requests.

Purchase Confirmation in eRetail

How do merchants procure signatures in online retail?

Obtaining the customer's signature has long been the standard “proof of purchase” in the mobile and Card-Present space. However, acquiring that all-important signature is more difficult in the mobile and Card-Not-Present space. On average, only 35% of all merchants surveyed indicated that they have some form of signature on file. Biometric Signature Capture is now considered “Compelling Evidence” per the new Card Brand's re-presentment guidelines.

Do you obtain a customer signature for online transactions?

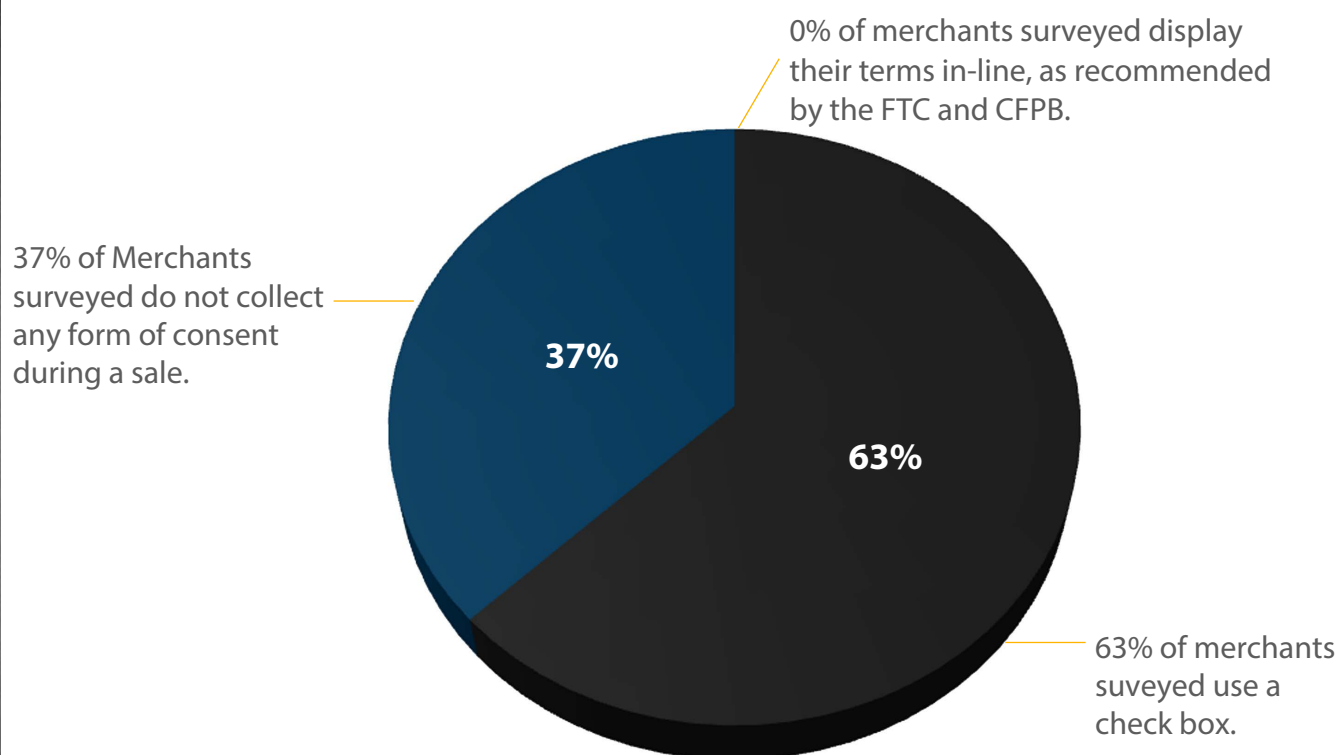


Terms and Conditions

How You Present Terms and Conditions Can Affect Chargebacks

While 43% of all merchants surveyed indicated that they present sale Terms and Conditions and refund policies within the cart at the time of checkout, 25% indicated that they do not. Another 27% indicated that they provided a link to the Terms and Conditions.

How do you collect the buyer's consent to the Terms and Conditions and return policy for an online sale?



Many of the merchants surveyed were not aware of recent changes to the Terms and Conditions best practice recommendations by the FTC, and new Card Brand requirements regarding placement of Terms and Conditions within the check-out process. Using check boxes or pop-ups to display Terms and Conditions is no longer considered to be best practice.

Note: According to the Visa® Card Acceptance Guidelines for Visa Merchants 2011 - Disclosure for Card-Absent merchants doing business via the Internet: The terms and conditions of the purchase must be displayed on the same screen view as the checkout screen that presents the total purchase amount, or within the sequence of website pages the cardholder accesses during the checkout process.

CONCLUSION

CNP fraud is real and merchants need to educate themselves, be vigilant and clearly understand how it can affect their business. Implementing the right technology and best practices can detect fraud, deter fraudsters and defend merchants against CNP fraud.

Studies have proven that CNP fraud will escalate 40% to 60% as a result of EMV implementation. As fraudsters will be driven away from the card-present space and into the mobile and card-not-present space: now is the time for merchants to prepare themselves.

One of the strategies that merchants are investigating is the use of 3D Secure (3DS) protocols, including Verified by Visa and MasterCard SecureCode. "3D Secure has been around for quite some time" states Greg Wooten, CEO of SecureBuy. "It's a tried and true method of proactively beating fraudsters before they can do any damage. The protocols basically allow the customer to authenticate themselves with their issuing bank. This allows the issuer to assume all risk of the transaction; letting the merchant off the hook. Merchants can also receive considerable interchange advantages."

Global merchants and customers are familiar with 3DS already, and many merchants use 3DS active authentication in place of traditional manual review.

Mr. Wooten points out that while early versions of 3DS had a reputation for using pop-ups: current deployments of 3DS by top providers deploy authentication in-line within the shopping cart, in order to avoid cart abandonment.

The issue of rampant chargebacks has also reared its ugly head once again. It's gotten so bad that some merchants simply refund the customer without challenge, in order to avoid, at any cost, excessive chargebacks that could put their ability to process at risk.

"History has proven that the only effective ways to fight chargebacks are to make sure that your Terms and Conditions are clearly displayed within the checkout and to obtain that all-important customer signature," Mr. Wooten says. "A link or pop-up to the Terms and Conditions is still going to be considered deceptive. If the merchant expects to win the dispute, the Card Brands expect to see those terms displayed in accordance with their published regulations."

"And, concerning friendly fraud," Mr. Wooten concludes, "the signature is still king. There's no better way of securing customer commitment than to have them sign their name."

METHODOLOGY

The survey was conducted via online survey distributed to Magento merchants between February and May 2013. Respondents were asked to identify themselves as either North American (Canada and the USA) or Out of Country merchants. Large merchants are defined as respondents with more than \$25 million in sales. Businesses with less than \$25 million in sales are defined as smaller merchants for the purposes of this report.

About Magento

The Magento eCommerce platform serves more than 150,000 merchants worldwide and is supported by a global ecosystem of solution partners and third-party developers. Magento is a feature-rich, open-source, enterprise-class platform that offers merchants a high degree of flexibility and control over the user experience, catalog, content and functionality of their online store. In August 2011, Magento was acquired by eBay Inc., and is now a division of X.commerce, Inc. (NASDAQ: EBAY).



Magento.com
10441 Jefferson Blvd, Suite 200
Culver City, CA 90232
Phone: 310.954.8012

About SecureBuy

SecureBuy (www.securebuycommerce.com) is a wholly owned subsidiary of SignatureLink, Inc. SecureBuy is the leading architect of fraud technology and eCommerce solutions. SecureBuy Labs, the R&D arm of SecureBuy, is contracted for use by some of the largest players in the payment eco-system as a think tank and development incubator for new technology. Best known for the creation and development of one of the most widely adopted patented technologies in the mobile and eCommerce space utilized daily for payment acceptance; SecureBuy is a direct global provider of payer authentication services, risk management and end-to-end automated fraud solutions for acquirers, ISO's and/or payment processors. SecureBuy is a Magento Gold partner.



SecureBuyCommerce.com
605 Crescent Blvd., Suite 200
Ridgeland, MS 39157
Phone: 800.511.2050
Intl.: 001.408.478.9760

