

RETAIL

Incidents of fraud damage retailers' relationships with consumers

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Most consumers blame retailers for credit card fraud. Image credit: iStockphoto

By SARAH RAMIREZ

Nearly half of shoppers in the United States have dealt with credit card fraud, with many victims not returning to the retailer after the incident, leaving merchants in a precarious position.

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Credit card fraud has varying repercussions for retailers, who have to pay for the cost of the fraud and also see a damaged reputation and revenue loss. However, fear of fraud has also led to 30 percent of consumers having legitimate purchases declined, again negatively impacting the relationship between shoppers and retailers.

"Retailers have to balance their own financial liability with customer security and loyalty, and any slip up can have a real, lasting impact," said Eyal Raab, vice president of business development at **Riskified**, New York. "Deciding whether or not to approve a purchase is a tough decision, and in today's fast-paced economy, retailers often have a short window in which to do it.

"It's a real challenge, and it's not getting any easier in our new omnichannel world," he said.

Riskified surveyed 5,000 American consumers about their experiences with ecommerce and credit card fraud.

Fraud findings

Forty-nine percent of U.S. shoppers have experienced credit card fraud in which their information was illegally used by another individual.

It is important to note that incidents of fraud increase with age, with 57.1 percent of consumers over the age of 71 experiencing fraud.



Nearly half of U.S. shoppers have been victims of credit card fraud. Image credit: Roger Vivier

More than a quarter of consumers blame the fraud on the merchant that accepted the payment. Organizations who lose credit card details or experience a breach also face heavy criticism from consumers.

Furthermore, 49 percent of customers do not return to an online retailer after a fraud incident has taken place.

Consumers themselves are responsible for fraud, particularly what Riskified labels "liar fraud" in which a shopper receives a purchase but disputes a legitimate charge.

Forty-eight percent of households with annual incomes of more than \$1 million admitted to reporting legitimate purchases as fraudulent. Less than 40 percent of consumers with annual earnings between \$800,000 and \$1 million reported the same behavior.

"There isn't one single reason why wealthy households were more likely to have reported a purchase as fraudulent than other income brackets," Mr. Raab said. "They were higher than the overall average for almost every reason in our survey, but they are demanding customers."



Almost a third of consumers have had legitimate transactions declined by retailers. Image credit: Saks Fifth Avenue

Many retailers have overcorrected in their attempts to handle fraud, ultimately damaging their bottom line yet again.

Thirty percent of consumers have had legitimate transactions declined by merchants.

More troublesome, 57 percent were repeat customers and 42 percent of respondents declined to re-attempt the purchase through the same retailer after the transaction was rejected. Fourteen percent of declined consumers opted to purchase the desired item from a competitor instead.

Combating fraud

As luxury brands ramp up their ecommerce efforts, the risk for fraud grows.

According to Forter's [2018 Fraudster Wish List](#), spikes in fraudulent activity correspond with the peak holiday shopping season. Designer watches and shoes are the luxury goods most at risk for fraud.

The increase in fraud also coincides with a large increase in ecommerce holiday sales, including sales of luxury goods.

Mid-range luxury items are among fraudsters' favorites. Criminals are usually drawn to goods that are both valuable and easy to resell without drawing heavy scrutiny from retailers ([see story](#)).

Cart abandonment is also a problem throughout ecommerce platforms.

Out of the millionaire respondents in Riskified's survey, 37.3 percent admitted to abandoning a purchase because of a complicated checkout process. Another 34.9 percent abandoned a cart because of a poor mobile experience.

While retailers have shown improvement in recent years at making their digital channels more convenient, the emotional scores for Web sites and applications have fallen.

Although some brands have simplified the customer journey, by leaving breadcrumbs for easier navigation or offering streamlined in-store inventory searches, on the whole there is still opportunity for improvement.

Sites are often difficult to navigate with low-quality content and a long checkout process. Brands should also think about integrating customer service at key moments, such as Apple's chat feature at checkout that helps prevent cart abandonment ([see story](#)).

"The biggest thing that luxury retailers can do to ease consumer concerns about fraud is to have a smart fraud solution in place," Riskified's Mr. Raab said. "Consumers particularly luxury consumers are demanding, and retailers will lose in the short and long term if they incorrectly decline their purchase, or if they allow fraud to take place.

"It's a very precise balancing act, but a smart solution will maximize revenue and minimize the brand damage that comes from both fraud and unnecessary declines."

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