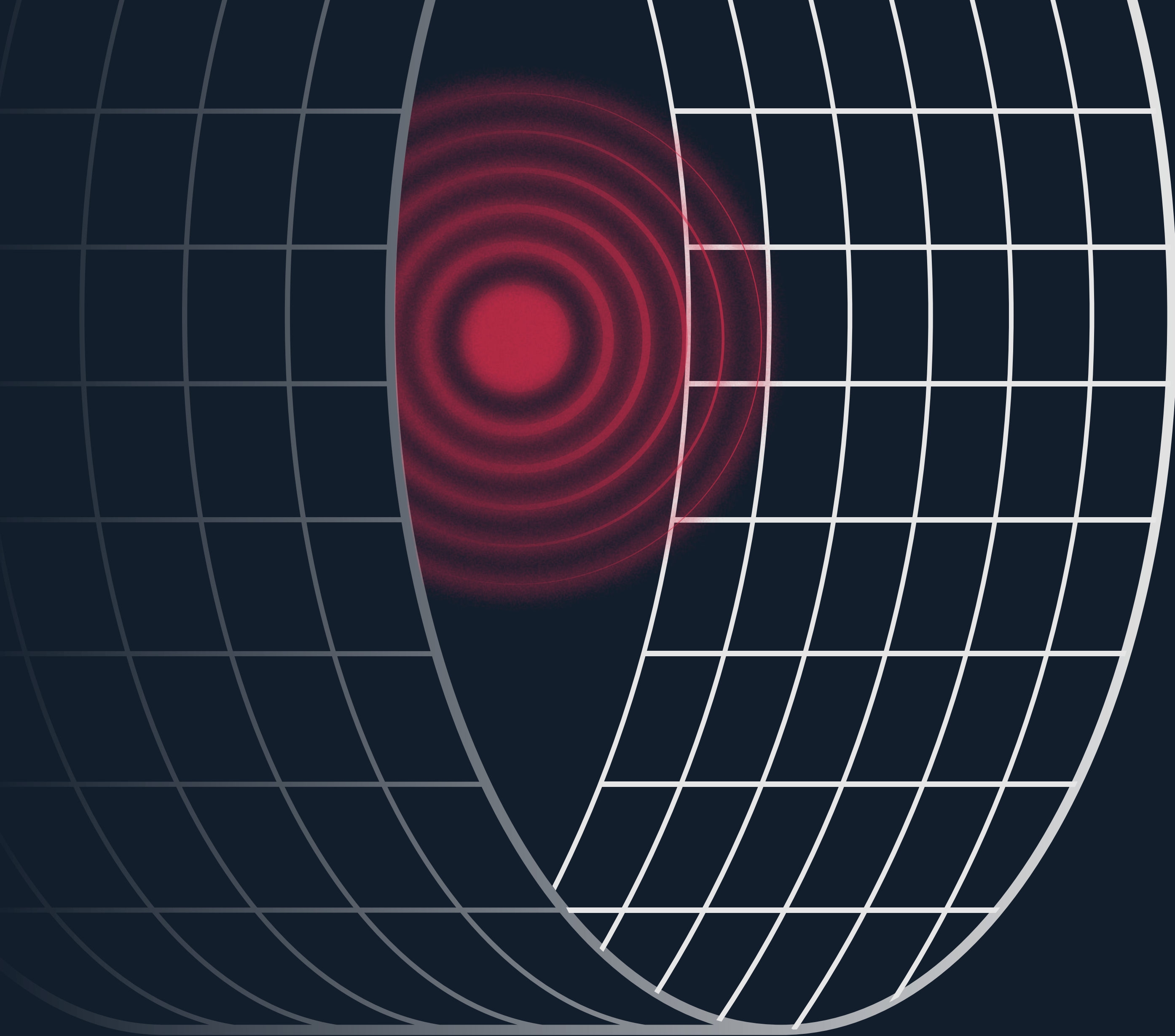

Fraud Management, False Declines and Improved Profitability

November 2023 Report

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Fraud Management, False Declines and Improved Profitability

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Fraud Management, False Declines and Improved Profitability was produced in collaboration with Nuvei, and PYMNTS Intelligence is grateful for the company's support and insight PYMNTS Intelligence retains full editorial control over the following findings, methodology and data analysis.

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WHAT'S **AT STAKE**

Profitability in eCommerce hinges on seamless transactions, but false declines cause friction in the payment process that derails transactions and discourages customers from returning. PYMNTS Intelligence estimates that $157 billion is at risk due to false declines in the United States in 2023, and despite recovery efforts, $81 billion will ultimately be lost. However, minimizing false declines while effectively screening out potential fraud is easier said than done. Payment service providers (PSPs) are crucial in strengthening online retailers' bottom lines through a holistic approach to fraud management and false declines.

The depth and frequency of collaboration with PSPs have a significant positive impact on the profitability of eCommerce players. Eighty-six percent of these firms credit their improved profitability in the last 12 months to proactive support from PSPs. Despite these upsides, online retailers face continued uncertainty over failed payments due to potential fraud and false declines. Our research finds that 11% of all eCommerce transactions in the last year failed, yet very few merchants have a clear understanding of why. These are just some of the findings detailed in Fraud Management, False Declines and Improved Profitability, a PYMNTS Intelligence and Nuvei collaboration. This edition examines the current state of play for failed payments in the eCommerce space, drawing on insights from a survey conducted from Aug. 10 to Aug. 31 of 300 executives from eCommerce firms generating annual revenues of more than $100 million who have deep knowledge of their company's payments systems.

This is what we learned.

$81B

is projected to be **lost** due to false declines in the U.S. in 2023.

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KEY FINDINGS

01

PSP COLLABORATION

Collaboration with PSPs boosts eCommerce firms' profitability.

90%

Share of eCommerce firms that received a high level of collaboration from their PSPs in monitoring fraud and credit that earned higher profits in the last 12 months

02

EFFECTIVE SCREENING

Screening mechanisms that identify fraud and typos are fundamental for mitigating the incidence of failed payments among eCommerce retailers.

33%

Share of online retailers utilizing screening solutions that identify fraud as a cause of failed payments

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03

ANTI-FRAUD INNOVATION

Nearly all eCommerce firms are actively innovating their anti-fraud tools or planning to do so within 12 months.

95%

Share of eCommerce businesses currently innovating or planning to innovate their anti-fraud tools and technologies in the next 12 months

04

FAILED PAYMENTS

Failed payments pose a significant challenge to the eCommerce retail industry.

11%

Average share of online transactions among eCommerce merchants that failed in the last 12 months

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PYMNTS IN DEPTH

eCommerce firms should view false declines and fraud as interrelated. Working with PSPs to combat both issues can maximize profitability.

Eighty-six percent of firms that actively collaborate with PSPs overall report increased profitability.

Collaboration with PSPs is a powerful driver of profitability for eCommerce firms. Eighty-six percent of online retailers that received proactive support from PSPs in screening for fraud reported a boost in profitability in the past 12 months. The more extensive the collaboration, the greater the boost to profits: 90% of firms constantly or frequently collaborating with PSPs reported improved profits, whereas just 75% of their peers that did so infrequently said the same.

Improving profits comes not only from preventing true fraud but also from minimizing false positives that reject legitimate purchases. Ninety percent of firms that worked extensively with their PSPs on balancing anti-fraud measures and avoiding false declines reported a positive impact from the overall PSP collaboration.

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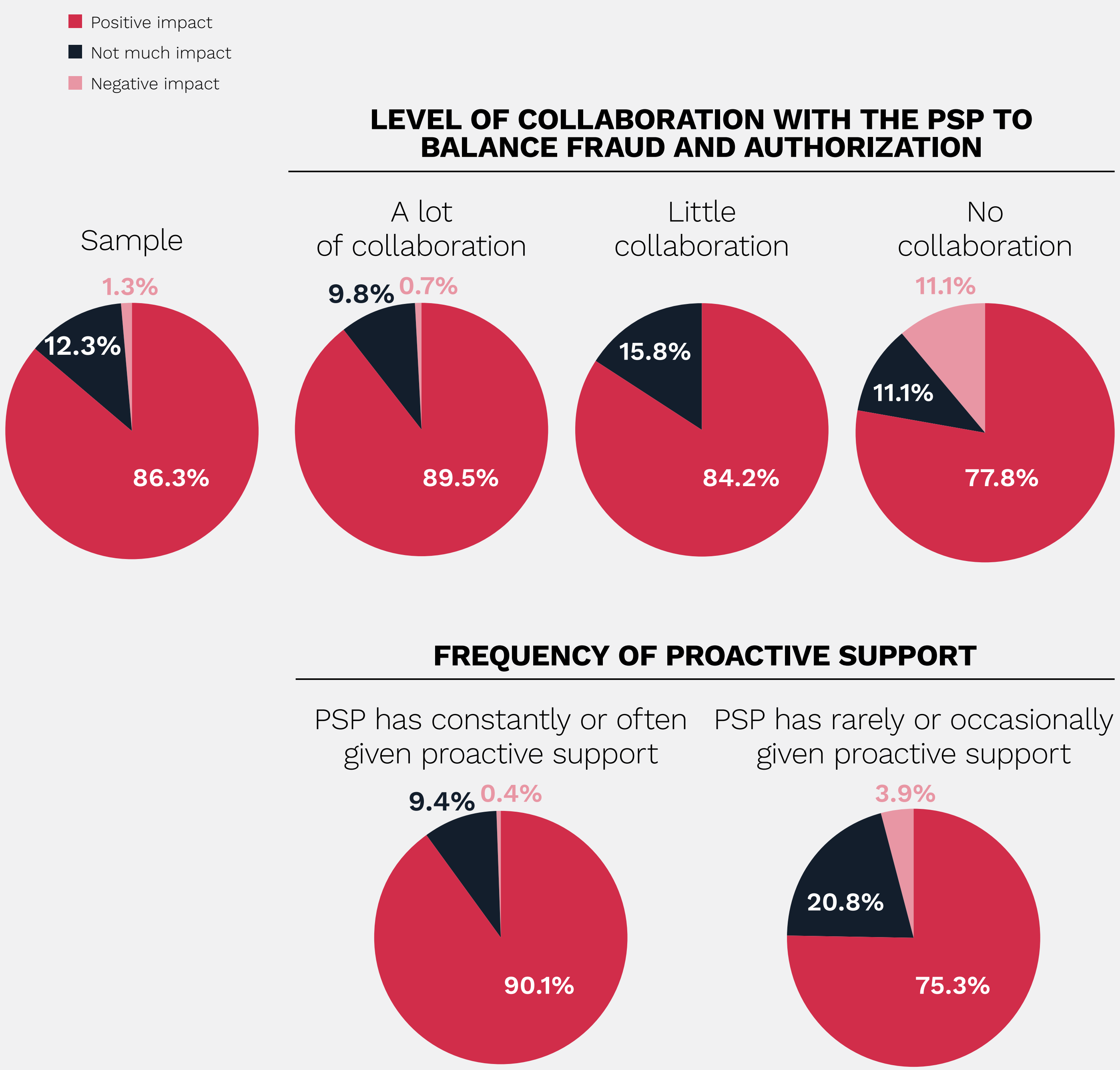
FIGURE 1:

The benefits of PSP collaboration

Share of firms citing the impact that proactive support from PSPs in monitoring fraud had on profitability in the last 12 months, by level of collaboration and frequency of support

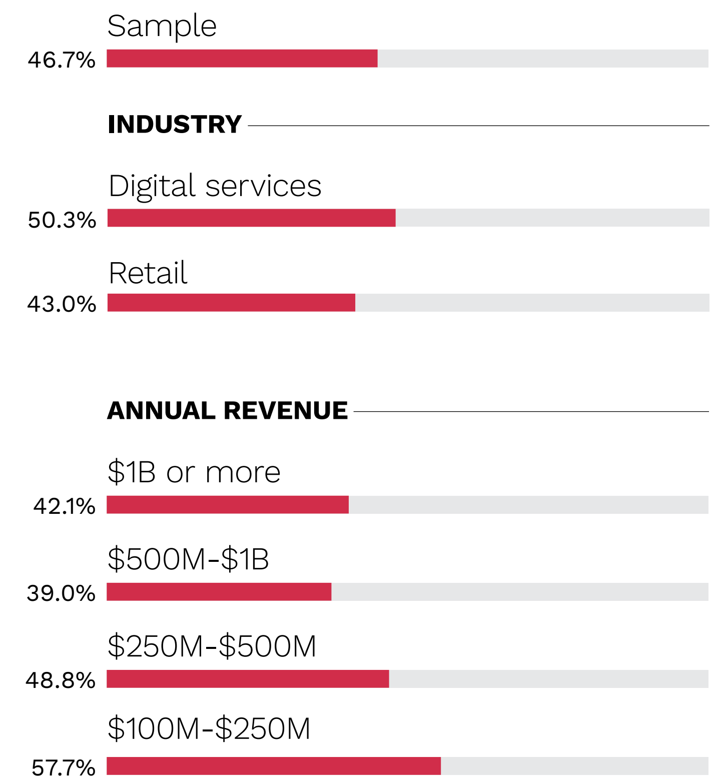


Source: PYMNTS Intelligence
Fraud Management, False Declines and Improved Profitability, November 2023
N = 300: Whole sample, fielded Aug. 10, 2023 – Aug. 31, 2023

FIGURE 2:

The impact of false declines on customer satisfaction

Share of firms that think false declines have a very or extremely negative impact on customer satisfaction, by industry and annual revenue



Source: PYMNTS Intelligence
Fraud Management, False Declines and Improved Profitability, November 2023
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Beyond the immediate loss of sales, retailers widely acknowledge that false declines alienate customers, with 47% saying they have a very or extremely negative impact on customer satisfaction. The share is higher for firms specializing in digital services, at 50%. Smaller companies tend to feel the effects more, with 58% of retailers generating revenues between $100 million and $250 million citing high levels of impact.

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Just 33% of eCommerce firms have screening mechanisms to identify whether potential fraud was a cause of failed payments.

Eighty-nine percent of online retailers currently employ some form of screening tools to pinpoint the cause of failed payments. However, 56% utilize only mechanisms to identify typos — a strategy that conspicuously overlooks fraud as a potential cause of failed payments — and 11% have no technology in place. Meanwhile, 33% have implemented screening solutions to identify potential fraud, including 22% with tools to screen for both typos and fraud and 11% with just fraud-detection solutions.

FIGURE 3:

Screening the causes of failed payments
Share of firms citing select screening mechanisms used to identify whether a failed payment is due to potential fraud or a typo, by annual revenue

	Sample	$1B or more	$500M-$1B	$250M-$500M	$100M-$250M
• Potential fraud	10.7%	7.9%	14.6%	17.1%	10.3%
• Potential typo	56.3%	60.0%	58.5%	51.2%	51.3%
• Both potential fraud and typos	22.3%	30.7%	24.4%	22.0%	6.4%
• Do not have a screening mechanism	10.7%	1.4%	2.4%	9.8%	32.1%

Source: PYMNTS Intelligence
Fraud Management, False Declines and Improved Profitability, November 2023
N = 300: Whole sample, fielded Aug. 10, 2023 – Aug. 31, 2023

Fraud widely affects eCommerce firms, with 84% encountering true fraud — verified fraudulent activities, not just suspected cases or false positives — in the last year. Technology-driven fraud schemes, such as phishing or cyberattacks conducted using bots or artificial intelligence, account for at least 61% of true fraud encountered, underscoring the acute need for the eCommerce space to adopt screening mechanisms capable of minimizing fraud's impact. Online retailers reported they could not accurately identify whether human- or technology-driven sources were responsible for 18% of confirmed instances of fraud in the last year. While a sizable share of eCommerce businesses have some kind of screening capabilities in place, the average online retailer could likely benefit from retooling its anti-fraud capabilities.

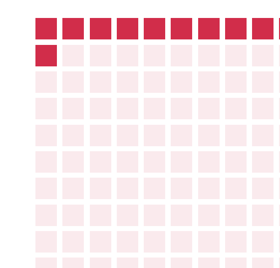
FIGURE 4:

Tech-driven versus human-driven fraud
Average share of true fraud experienced in the last 12 months that was tech- or human-driven, by annual revenue

	Sample	$1B or more	$500M-$1B	$250M-$500M	$100M-$250M
• Tech-driven fraud	60.9%	59.3%	62.0%	62.4%	62.7%
• Human-driven fraud	21.6%	24.0%	20.0%	20.4%	18.6%
• Could not detect whether tech- or human-driven	17.5%	16.7%	18.0%	17.2%	18.8%

Source: PYMNTS Intelligence
Fraud Management, False Declines and Improved Profitability, November 2023
N = 300: Whole sample, fielded Aug. 10, 2023 – Aug. 31, 2023

11%



Share of online retailers that currently **do not employ screening tools** to pinpoint the cause of failed payments

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Nearly all eCommerce firms have plans to innovate their anti-fraud toolkits, but just 16% see improved profitability as a benefit of doing so.

Although most eCommerce businesses do not currently screen for fraud as a cause of failed payments, 95% of firms are either innovating their anti-fraud tools and technologies or plan to do so in the next 12 months. Companies focusing on the retail trade lead, with 45% actively upgrading their anti-fraud measures versus 37% of those in the digital services space. We note some variation based on firm size, with 31% of the smallest retailers — those with annual revenues of $100 million to $250 million — actively innovating versus larger shares for bigger companies.

FIGURE 5:

Plans to innovate anti-fraud solutions

Share of firms citing plans to innovate tools or technologies to combat fraud, by industry, annual revenue and level of PSP collaboration

	Currently innovating	Will innovate in the next year	Will innovate, but not within the next year	Unsure or have no plans
• Sample	41.0%	53.7%	4.7%	0.7%
Industry				
• Digital services	37.1%	58.3%	4.0%	0.7%
• Retail trade	45.0%	49.0%	5.4%	0.7%
Annual revenue				
• $1B or more	45.7%	49.3%	4.3%	0.7%
• $500M-$1B	39.0%	51.2%	9.8%	0.0%
• $250M-$500M	46.3%	51.2%	2.4%	0.0%
• $100-$250M	30.8%	64.1%	3.8%	1.3%
Level of collaboration with the PSP to balance fraud and authorization				
• A lot of collaboration	38.6%	54.9%	5.9%	0.7%
• Little collaboration	43.3%	51.7%	4.2%	0.8%
• No collaboration	44.4%	55.6%	0.0%	0.0%

Source: PYMNTS Intelligence

Fraud Management, False Declines and Improved Profitability, November 2023

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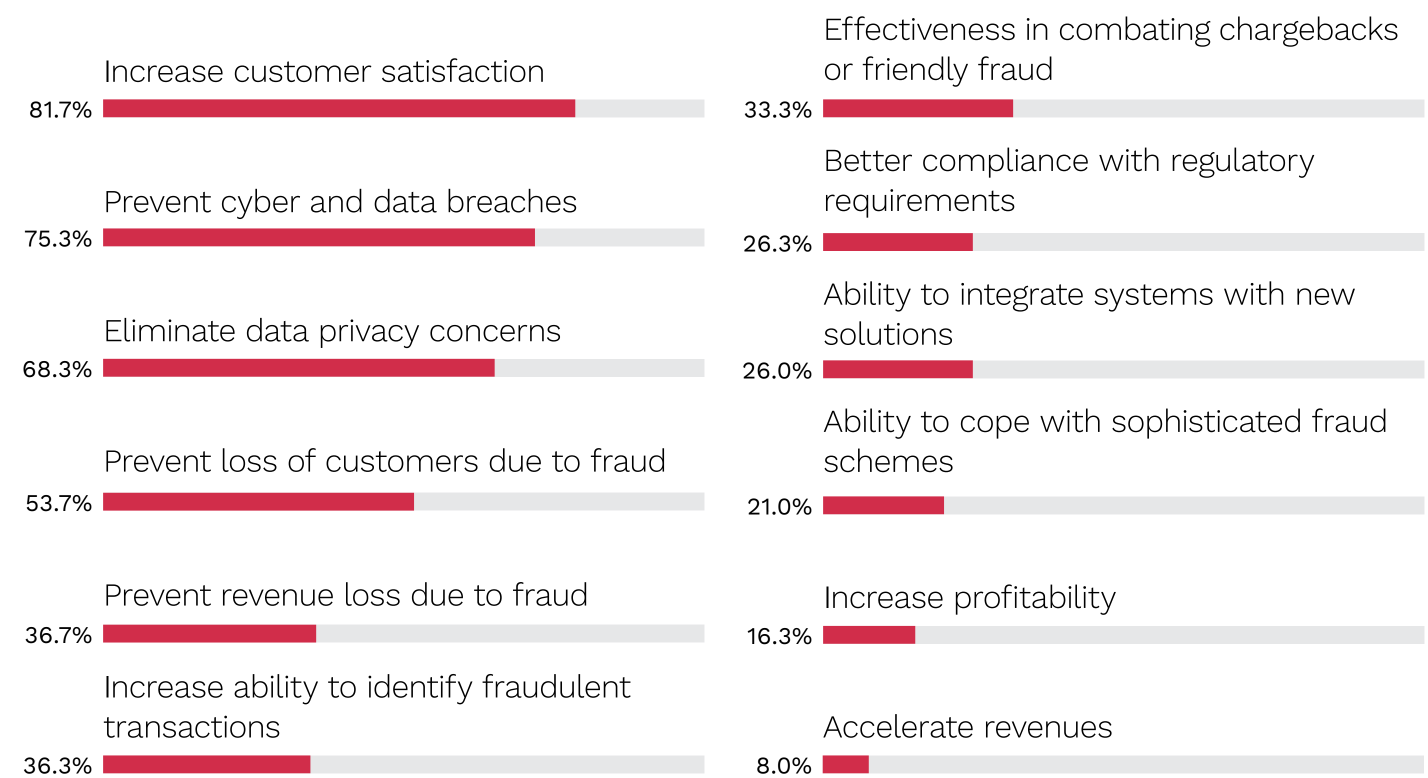
Online retailers, however, widely overlook the direct link between improving anti-fraud solutions and boosting their bottom lines. Just 16% named increased profitability as a benefit of innovating in this area, and 8% noted the potential for accelerating revenues. These gaps in perception underscore a significant need for PSPs to deepen awareness among their eCommerce clients of the benefits of collaboration in this area. Instead, 82% of merchants cited increasing customer satisfaction as a benefit, 75% cited prevention of data breaches and 68% cited elimination of data privacy concerns.

FIGURE 6:

Benefits of enhancing anti-fraud toolkits
Share of firms citing benefits of innovating tools or technologies to combat fraud



Source: PYMNTS Intelligence
Fraud Management, False Declines and Improved Profitability, November 2023
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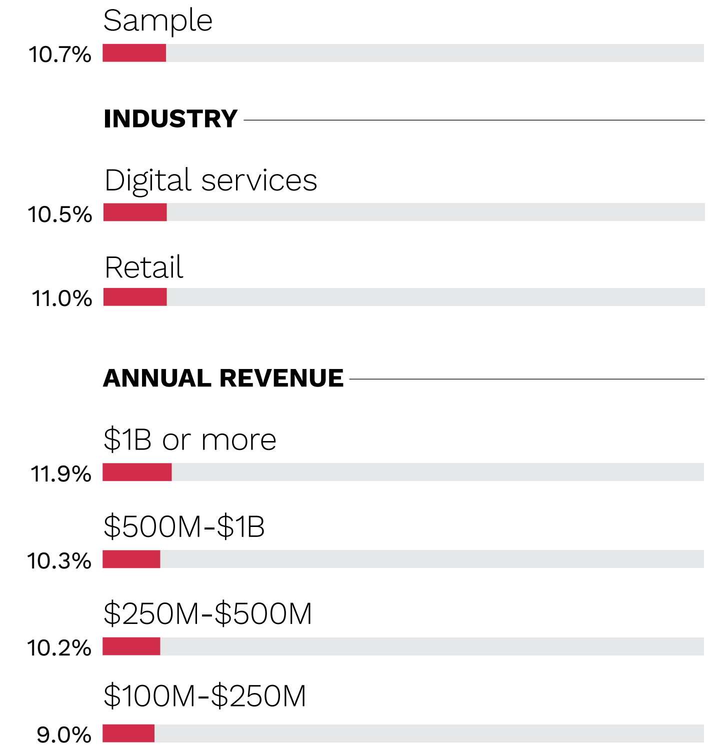
Failed payments are a widespread problem with a clear impact on revenue, yet 82% of firms say it is difficult to determine their cause.

More than 1 in 10 online transactions processed by the average eCommerce firm failed in the last 12 months. Large firms were more likely to report failed payments, at 12%, than their smallest counterparts, at 9%. Large firms tend to have higher volumes and larger shares of cross-border sales, partly explaining this discrepancy. Among firms processing both domestic and international sales, 72% experienced higher rates of failed payments in their cross-border sales than in their domestic sales.

FIGURE 7:

Rates of failed payments
Average share of online transactions resulting in failed payments in the last 12 months, by industry and annual revenue



Source: PYMNTS Intelligence
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N = 300: Whole sample, fielded Aug. 10, 2023 – Aug. 31, 2023

Despite the ubiquity of failed payments and their ripple effects on sales and customer satisfaction, 82% of online retailers cited difficulty in identifying the causes. Eighteen percent cite this as the top challenge related to failed payments. Similarly, 67% said that failed payments are difficult to recover. Other key challenges include negative impacts on a company's reputation, at 62%; increased staff workloads, at 59%; and expenses related to tracking and resolving failed payments, at 56%.

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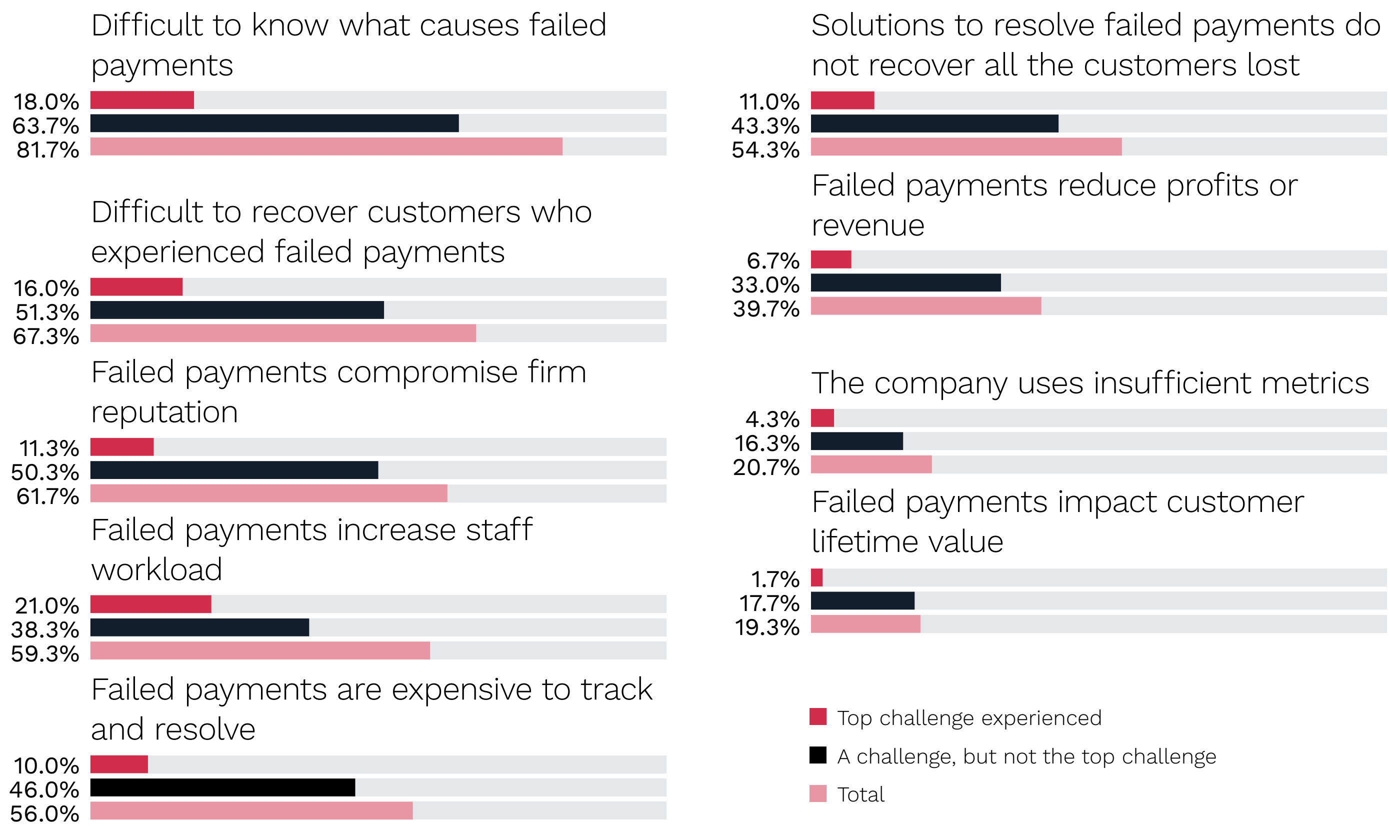
FIGURE 8:

Why failed payments are challenging

Share of firms citing select challenges related to failed payments they experienced in the last 12 months, by level of challenge



Source: PYMNTS Intelligence
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> More than **1 in every 10** online transactions processed by the average eCommerce firm **failed** in the last 12 months.

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DATA FOCUS

Nearly all retailers partner with third-party solutions providers as part of their failed payment recovery strategy.

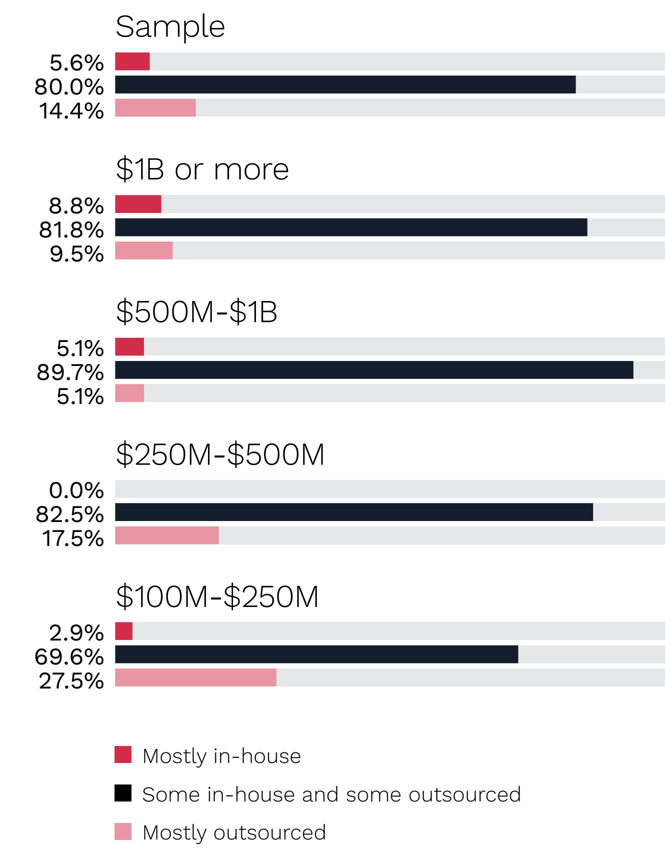
Ninety-four percent of eCommerce firms outsource some or all of their failed payment recovery solutions.

The most common approach to failed payment recovery is a mix of in-house and third-party solutions, with 80% of merchants adopting this strategy. Fourteen percent, meanwhile, rely entirely on third-party services and a mere 5.6% on in-house solutions alone. The smallest firms surveyed — those generating $100 million to $250 million per year in revenue — leverage outsourced solutions most heavily, at 28%, followed by those generating $250 million to $500 million in revenue, at 18%. Firms generating $1 billion or more in annual revenue, meanwhile, are the most likely to rely completely on in-house solutions, at 8.8%.

FIGURE 9:

Source of failed payments recovery solutions

Share of firms that outsourced their solutions to recover failed payments, by annual revenue



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ACTIONABLE INSIGHTS

01

Increase collaboration with PSPs to boost profits. Strong, ongoing partnerships with PSPs have proven effective, particularly in monitoring for fraud. Merchants must recognize the value added from these collaborations and do more than simply be passive recipients of active support.

02

Optimize fraud screening mechanisms to better identify the root causes of failed payments. Embrace comprehensive screening tools that discern between genuine errors and potential fraud, enhancing payment success rates and security.

03

Prioritize innovation of anti-fraud tools and technologies. Upgraded and updated payment technologies that better balance minimizing fraud and false declines not only help safeguard against illicit payments but also contribute to a more satisfying customer payment experience.

04

Work with PSPs to accurately identify the causes of failed payments. Doing so will foster a more reliable and trustworthy payment experience, which can improve customer retention and maintain brand reputation.

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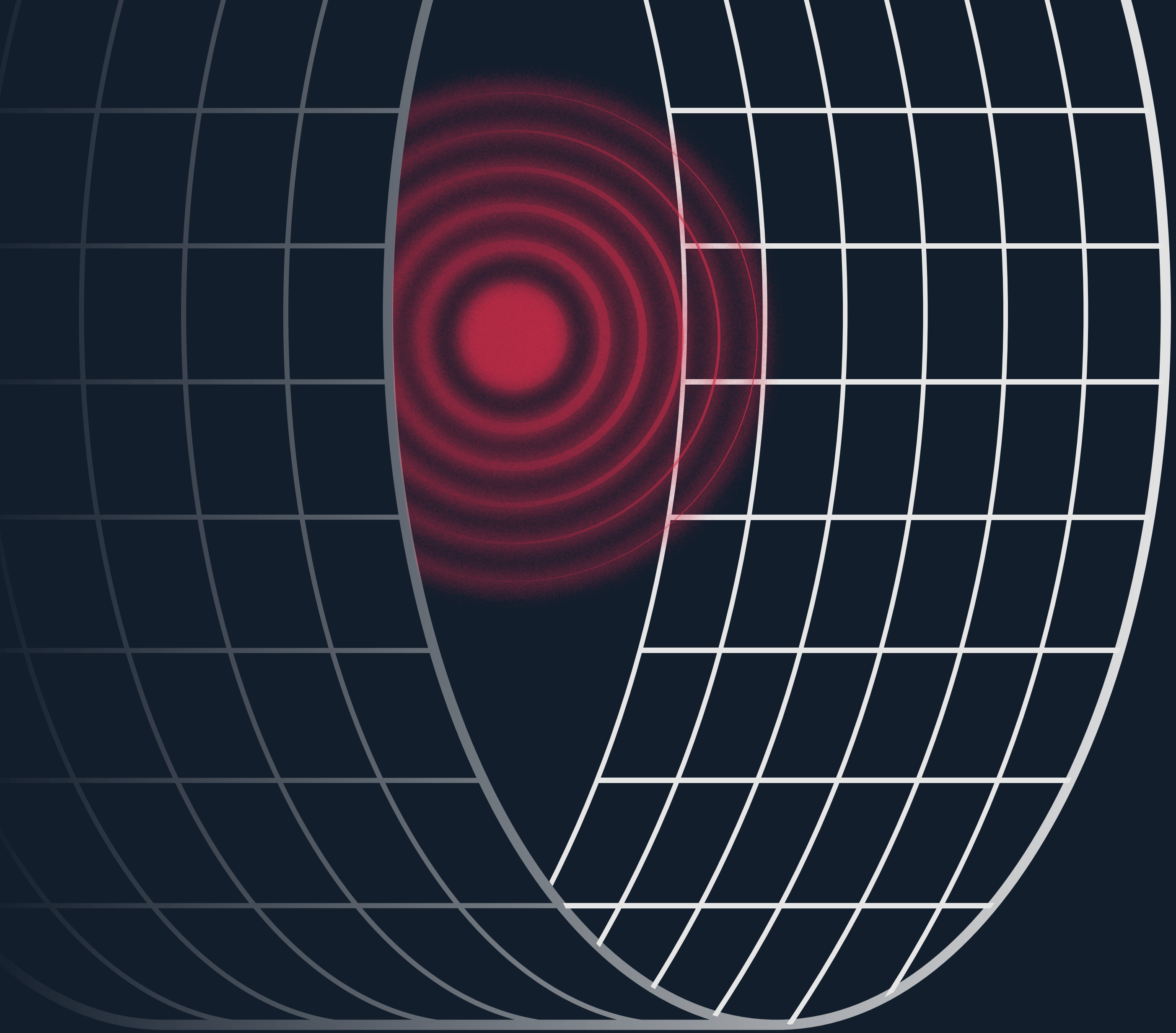

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METHODOLOGY

Fraud Management, False Declines and Improved Profitability, a PYMNTS Intelligence and Nuvei collaboration, is based on a survey conducted from Aug. 10 to Aug. 31 of 300 executives from eCommerce firms selling both inside and outside the U.S. that generate annual revenue of more than $100 million and who have deep knowledge of their company's payments systems. This edition examines the current state of play for failed payments in the eCommerce space.

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PYMNTS
INTELLIGENCE

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts, and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multi-lingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

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