# Fraud Costs Rise for Merchants, Especially on the International E-Commerce Side

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**By Jim Daly**

**@DTPaymentNews**

Merchants' actual fraud costs are up for the third year in a row and their total fraud-related expenses also are rising, according to the latest True Cost of Fraud study from LexisNexis Risk Solutions.

**Fraud** as a percentage of the revenues reported by the 653 retailer risk-control executives surveyed for the 2017 study was 1.58%, up 7.5% from 1.47% in 2016. As recently as 2013, fraud was only 0.51% of revenues before increasing to 0.68% the following year and then taking a big jump to 1.32% in 2015.

The study, first done in 2009, is unique in that it estimates total fraud-related costs beyond straight fraud losses, including expenses for replacing fraudulently-obtained goods or services, and other customer-related costs. This so-called fraud multiplier increased to $2.77 this year for every dollar of actual fraud loss, up from $2.40 in 2016 and $2.23 in 2015. The 2015 multiplier represented a hefty decline from $3.08 in 2014.

"Retail fraud has actually increased in the past year, and the cost of it has too," Kimberly Sutherland, senior director of fraud and identity strategy at LexisNexis Risk Solutions, an Alpharetta, Ga.-based data-analytics and risk-management firm, said Wednesday at the CNP Expo conference in Orlando, Fla.

Those numbers are for the merchant group as a whole; some merchant segments had much worse multipliers. LexisNexis sliced and diced the data by size of merchant, whether it sells physical and/or digital goods online, and whether it sells only domestically or internationally. Large merchants—those with $50 million or more in annual revenues—that sell both digital and physical goods internationally had a multiplier of $3.66, Sutherland said. In comparison, large merchants that sell digital and physical goods only in the U.S. had a multiplier of only $1.39.

Losses sustained by big international retailers selling physical and digital goods jumped substantially in the past year in part due to so-called bot attacks, in which hackers assemble armies of computers for fraudulent purposes, and "a lot of concerns around digital gift cards," said Sutherland. Gift cards are popular items for criminals to buy with stolen credit or debit card credentials because they can be easily converted to cash.

LexisNexis queried the merchants extensively about their **risk-control methods**. The average merchant uses at least three fraud-control services, and big ones use on average just over six, according to Sutherland. But quantity of risk-control services doesn't necessarily mean reduced fraud.

"Merchants are still using same solutions, and so although they're seeing fraud increase ... most are still addressing their fraud risk in the same manner they did last year, the year before, and so on," she said.

The study was done for LexisNexis by Syracuse, N.Y.-based market-research firm KS&R Inc. The merchant results Sutherland released this week are only part of an expanded fraud study that now includes financial institutions and other lenders. Results from those firms' responses will be released in June, according to Sutherland.