£2B a year is lost to transactions wrongfully rejected as fraudulent

New research by fintech unicorn Checkout.com shows the UK is losing over $2B annually due to legitimate transactions being rejected as fraudulent, a fact that naturally causes frustration for customers who go buy elsewhere online. Recovery could be slowed down or delayed unless businesses plug an annual $20B hole in online transactions to tackle this massive issue.

Temps de lecture : minute

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16 July 2020

Loss of sales caused by false declines, where legitimate transactions are flagged as fraudulent, cost online retailers at least $20B in 2019 in the world's biggest e-commerce markets. At a time of unprecedented trading conditions, merchants are handing nearly $13B to competitors as consumers take their falsely rejected business elsewhere. A further $7.6B of consumer money is effectively written off the balance sheet of the digital economy as consumers give up online purchases altogether.

The research, the largest ever of its kind, conducted by Oxford Economics on behalf of Checkout.com, is based on 5,000 consumers and 1,500 merchants across the US, UK, France and Germany.

The US is worst hit, losing $15B last year to false declines, followed by the UK ($2.3B), Germany ($1.7B) and France ($1.3B). This is money businesses can't afford to lose, with COVID-19 predicted to cause an average global downturn of 6%. And these losses will increase unless action is taken. The volume of online payments is growing as consumer habits change due to the pandemic. Checkout.com saw a 250% increase in online transaction volume in May year on year. Without making their payments more efficient, businesses will continue to lose part of this growth.

The research shows that more than two thirds (65%) of merchants don't receive the data that tells them when, why and how customer payments have been declined, stopping them from even beginning to address their payment inefficiencies.

While only 50% of businesses have a clear payment strategy that is understood across their business, the businesses that prioritise payments are reaping the benefits. Super high growth companies, those growing at more than 40% year on year, are more likely to have an authorisation rate of 96-100% than other businesses surveyed.

A disconnect between business leadership and payments holds back growth

Failure to unlock value tied up in payments is holding businesses back at a time when growth online has never been more important. Almost a third (31%) of merchants surveyed agreed that payments issues are preventing them from entering new markets.

Not offering consumers the right payment options is a further barrier to expansion. 56% of consumers say they would take their money elsewhere if the merchant did not offer their preferred payment option. Yet only four in 10 (37 per cent) of the merchants surveyed currently offer a full range of alternative payment methods, from local methods like Giropay in Germany and iDeal in the Netherlands to digital wallets like AliPay and Apple Pay.

The Checkout.com research shows that there is stored up potential for merchants to be making strategic use of their payments data. Despite this, 66% of merchants across the UK, US, Germany and France are not using payments data to inform business innovation, new products and new business models.

> *"The global economy continues to recover from the pandemic. The crisis has only accelerated the shift of commerce to digital. Now more than ever, merchants must be empowered to create better customer experiences and innovative offers that drive more business and capture more revenue. Payments are a source of amazing hidden value that merchants can use to unleash growth, but they need more actionable, granular data and better control to create the right solution for their business. They need flexible, modular payments solutions that can be built their way." - Bradley Riss, Chief Commercial Officer, Checkout.com*

Missing out on value at the checkout

The Checkout.com report also shows some merchants aren’t in tune with their customers on what is important at the digital checkout and underestimate how much consumers value security and convenience.

At a time when people are spending more online than ever, the research shows that people are willing to pay more for better security than they are for convenience. In a stringent Willingness-to-Pay analysis, the economists working on the report were able to find that consumers will pay $4.13 on average for the security of two-factor authentication. French consumers were most security-conscious, valuing two-factor at €4.95, followed by the UK (£3.99), Germany (€3.10) and the US ($3.17).

In contrast, merchants believe security is one of the least important aspects of payments to consumers. The data shows that merchants rank security of 3DS2 (the next generation of authentication) third after screen optimisation across devices.

> *“The worst thing is to lose a customer at the point of payment. The most expensive mistake you can make is to lose people at that stage, because you've spent so much on customer acquisition, and now you're losing them for reasons that you might not even be aware of.” - Andrew Row, Managing Director of Uber Payments*

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