



DRAFT

# Transforming Digital Commerce with Adaptive Risk Management

Digital commerce is changing and growing rapidly, and so is fraud.

Organizations need fraud solutions that evolve with their commerce operations and strategies.



**14%** of retail sales occurred online in 2020, a year-over-year growth rate of **32.2%** as compared to 2019. Retail sales overall grew just 0.3% in the period.

Source: US Census Bureau, June 2021



**76%** of respondents with a digital payments platform **have a fraud management system.**

Source: IDC's 2020 PayPal Enterprise Payments Survey



**25%** of merchants **outsource card not present (CNP) fraud prevention.**

Source: IDC, 2021

COVID-19 significantly accelerated ecommerce, propelling consumers' demand for secure, seamless, cross-channel digital experiences. Consumers expect such engaging and personalized digital interactions when dealing with brands. This is especially true in today's global economy, where merchants are no longer able to defer transformation due to the operational challenges of selling to a wide range of customers. In this environment, merchants must provide commerce experiences that are high value with low friction, while also imbuing trust with their customers.

Savvy organizations understand that to succeed, every business and technology decision must center around the customer experience, including fraud prevention. To address fraud requires prioritizing an end-to-end solution that provides robust data analytics and adapts quickly as the threat evolves.

However, fraudsters have made significant investments in data, technology, and business models to stay ahead of retailers. Crime-as-a-service (CaaS) functions enable the outsourcing of fraud. Attack automation tools use identity and payment data to find vulnerable sites and merchants. Remote access, location spoofing, and a range of bots let fraudsters impersonate anyone. Malware also allows a range of theft and deception.

Legacy fraud prevention systems have not kept pace for modern commerce. These systems often rely on linear models that are not adept at recognizing changes in the risk environment. Basic machine learning (ML) rule sets age poorly and are challenging to update, resulting in high false positives, friction for end customers, and operational inefficiencies.

The response to the growing fraud threat is a proliferation of new security solutions: identity, device, email, behavioral biometrics, and physical biometrics, to name a few. These solutions add more layers of protection and reduce fraud effectively. However, they also create a flood of data that must be managed and integrated with other data sources.

This proliferation of security solutions and data sources creates complexity in understanding risk and obscures data relationships that would be highly predictive. Such “layered methods” make it challenging for merchants to pull together multiple point solutions from different providers to create the customer experiences that consumers demand. At the end of the day, a successful fraud management strategy is at the nexus of security, business success, and providing excellent customer experiences.

## Recommendations

As merchants scale their businesses and expand their ecommerce footprint, they must address unique risk challenges head on and at all stages of business growth.

### IDC recommends that online merchants focus on the following initiatives to reduce fraud:

- ▶ Reduce chargeback costs that impact profit
- ▶ Increase transaction volume by reducing the share of transactions declined
- ▶ Keep up with regulations, including Know Your Customer (KYC)
- ▶ Keep fraud management top of mind when developing new offerings/programs such as loyalty programs

Merchants need to adopt an adaptive risk management system that works alongside their digital commerce and payments infrastructure. When properly implemented, a comprehensive fraud management solution allows merchants to focus on growing their business.

As digital commerce grows at a breakneck pace, retailers’ online strategies must keep pace to remain relevant without taking on unnecessary risk or sacrificing customer experience. To meet that goal, merchants must adopt new, data-driven strategies to keep fraud at bay while creating positive customer experiences and growing the business.

### Message from the Sponsor

Our mission at PayPal is to democratize financial services to ensure that everyone, regardless of background or economic standing, has access to affordable, convenient, and secure products and services to take control of their financial lives.

Fueled by a fundamental belief that access to financial services creates opportunity, we work across our brands to give people the financial tools they need to connect and transact in new and powerful ways—and ultimately, to join and thrive in the global economy.

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