

The Online Fear Factor

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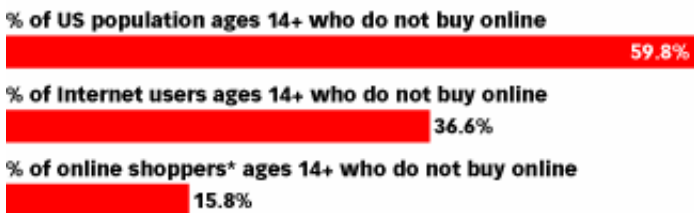
Phishing and keylogging and fraud. Oh, my!

Whether the threats are real or imagined hardly matters. Concerns over the security and privacy of personal information keep many users from becoming online consumers and online retailers are losing business.

"Internet privacy and security is an emotionally charged topic. People's passions are aroused by alarming news reports of high-tech scams used to steal credit card numbers over the Internet or the latest information breach at a large corporation," says Jeffrey Grau, eMarketer Senior Analyst and author of the new report, *Online Privacy and Security: The Fear Factor*. "However, some important facts are not being heard above the clamor."

eMarketer estimates that over a third of US Internet users, ages 14 and up, do not buy online. Concerns over the security and privacy of personal information keep many from becoming online consumers.

US Consumers Ages 14+ Who Do Not Buy Online, 2005



Note: *Refers to those who browse, research, compare or buy products online
Source: eMarketer, February 2006

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A Forrester Research survey from 2004 revealed that the fear of credit card fraud was the most frequent reason given (62%) by North America Internet users for never purchasing online.

In a later 2005 study, Gartner estimated that online attacks like phishing and other security breaches are continuing to exact a toll on consumer confidence - and those fears will shave 1% to 3% off US e-commerce sales growth over the next three years.

In another study released last year, Nilson Report showed that Internet credit card fraud was triple the rate of fraud in the bricks-and-mortar world. Fraud accounted for an estimated 14 cents of every \$100 in Internet credit card sales. By comparison, fraud represented 4.7 cents of every \$100 in total credit card sales, down dramatically from a peak of 25.7 cents per \$100 in credit card sales in 1992.

Fraud Loss Rate of General Purpose Credit Card Issuers in the US, 2004 (per \$100 in volume)



Source: Nilson Report, March 2005; BusinessWeek Online, July 2005

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"Some of consumers' fears are based on misconceptions," says Mr. Grau. "For instance, while it is true that credit card fraud occurs at a higher rate online than offline, research also shows that less than 10% of identity thefts, such as stolen credit card numbers, occur over the Internet."

Javelin Strategy & Research's "2006 Identity Fraud Survey Report" found that just 9% of fraud victims in the US named home computers (e.g., hacking, computer viruses, phishing or spyware) as the source of an information breach. Within the home computer category, online transactions represented a minuscule 0.3% of fraud incidents.

**Sources of Consumer Identity Theft in the US,
October-December 2005 (% of respondents)**

Consumer-related

Lost or stolen credit wallets, credit/debit cards and checkbooks	30%
Trusted associates, ie friends, family, in-home employees and neighbors	15%
Stolen mail or garbage	9%
Home computers (hacking, viruses, spyware and phishing)	9%

Business-related

Employee malfeasance	15%
Fraudulent transaction processing	7%
Data breaches	6%
Some other way	7%

*Note: n=235 individuals who knew how their information was accessed
Source: Javelin Strategy & Research, January 2006*

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Nevertheless, the threat of cyber crime is altering online shopping behavior. One result is that small e-tailers suffer, as consumers switch their business to recognized retailers.

Even the cloud of online fraud may have a silver lining, however. As Mr. Grau says, "Web retailers who know how to build consumer confidence can create a competitive advantage."

Be one of them. Stay ahead of online threats, whether real or imagined, read eMarketer's new report, [Online Privacy and Security: The Fear Factor](#).

Source - eMarketer

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