» 2020 Fraud Report

Why consumers don't understand card fraud...

and what payments innovators need to do about it.

MARQETA

Introduction

It's the $28 billion problem: how do you reconcile the benefits of the new digital economy and all its conveniences, with all the new ways it has made consumers vulnerable to bad actors? The 16 digits on your card serve as a commercial identifier that frees your wallet of paper money and helps you buy things with a single tap. But those same 16 digits can also be sold for $4 on Facebook (True story!).

It's a strange, confusing experience to be a victim of fraud, a manipulation of the means with which you alone exercise your consumer choices for someone else's ill-gotten gain. You quickly learn the many ways your card can be mis-used. A lost card can be used in a stranger's online shopping spree. The practice of skimming has made resurgence with more than half the world facing shelter-in-place orders in March 2020. If a merchant's customer database is hacked, that information has a short journey to the black market.

The economy has digitized at speed in recent years, and taken a colossal leap online in recent months as the COVID-19 pandemic has left us sheltering in place. A report from TransUnion found that a week after the World Health Organization made the pandemic declaration, e-commerce jumped by 23%. We were already vulnerable, but the risks are escalating. COVID-19 has unleashed a myriad of scams in the market, with the FTC recently reporting their busiest February ever for reported complaints.

To understand how consumers felt about card fraud against this changing landscape, we surveyed 4,000 consumers across the U.S. and the U.K. (on February 16 and 17, using Propeller Insights) to get a sense of how impacted they'd been, how concerned they were, and how they wanted their banks, financial services, providers and card issuers to respond to this growing threat.

Fraud is happening... now.

1-in-5

people surveyed said they'd been hit by fraudulent transactions in the past 12 months.

People are split on who is to blame for fraud.

57%

of U.K. consumers said they, not the banks, were responsible for protecting themselves against card fraud, while 51% of U.S. consumers said the same.

Consumers aren't okay with fraud.

Only 31%

of consumers said that the risk of fraud was a fair trade-off for the convenience provided by new digital methods of payment.

The worried, concerned, confused consumer

Card fraud is not an idle threat.

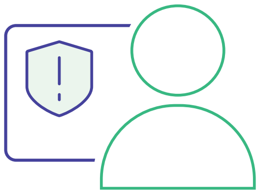
A whopping 42% of consumers told Marqeta they had been hit by fraudsters. So, if you were to ask a random person on the street, the chances that they've been a victim of card fraud are slightly less than 50-50. And it's not like this activity is spread out over decades, either: 1-in-5 people surveyed said they'd been hit by fraudulent transactions in the past 12 months.

We're all walking targets with little immunity. A third of people who have been hit by fraudsters have been hit twice. One-in-seven have been hit three times or more. And we're not being taken for small change. Based on the responses to our survey, more than $100 was charged in 2/3 of fraudulent transactions. In one-in-five cases it was more than $500. The risk of becoming a victim and having to deal with hundreds of dollars of fraudulent activity puts us on edge: while 93% of consumers did get the fraudulent charges removed from their account, more than half (55%) affected consumers still actively worry about losing money to fraudsters.

So when we're getting attacked by every means possible - why wouldn't we be feeling a little hesitant?

Thirty-one percent of consumers said they'd had their card details stolen and used to make purchases online they weren't aware of. Eighteen percent said that they'd had their physical cards themselves stolen and used to make fraudulent purchases. Ten percent had their card details stolen when swiping their card in a compromised machine and used to make a counterfeit card. Nine percent said that they had their personal information stolen and a card opened up in their name without their knowledge.

Key stats

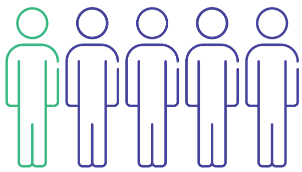


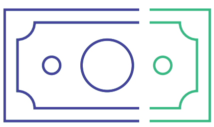
42%

of all people surveyed said they'd been the victim of fraudulent transactions.

1-in-5

people surveyed said they'd been hit by fraudulent transactions in the past 12 months.





2/3

of cases fraud consumers reported in this survey, they had more than $100 charged to their cards, in 1-in-5 cases it was more than $500.

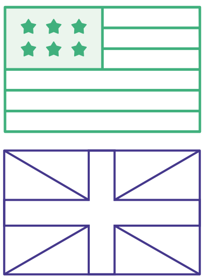
U.S.A.: Land of the free, home of the fraudsters.

Marqeta's survey showed a clear regional disparity between how likely U.S. and U.K. consumers were to have been impacted by card fraud. While we saw that U.S. and U.K. consumers were equally as likely to have been victims of card fraud in the last 12 months, U.S. respondents to our survey were 21% more likely to have been victims than someone in the U.K. (46% to 38%).

Not only were Americans more likely to be hit by fraud, the amount of money charged to their accounts was higher on average. Thirty-three percent of Americans affected said the fraudulent transactions charged to them totaled more than $500, compared to 23% of U.K. respondents affected. Americans were considerably more likely to have been repeat targets: 50% more likely to have been hit twice by fraudsters (16% in the U.S. versus 11% in the U.K.) and 3 times more likely to have been hit 3 times or more (10% in the U.S. versus 3% in the U.K.). Twenty percent of Americans said their card details had been leaked online as part of a major data breach, compared to just 7% of UK respondents.

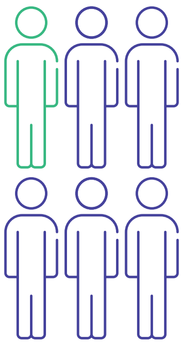
Americans were more likely to have fallen prey to all different types of card fraud: U.S. respondents were 50% more likely to have had someone use their card information fraudulently to make a purchase online, and 42% more likely to have had fraudulent transactions made on a stolen or lost card.

Key stats



46%

of Americans surveyed said they'd been victims of fraud, compared to 38% of U.K. respondents.



1-in-6

Americans surveyed said they'd been impacted by fraud twice (compared to 11% of the U.K.).

We're mad as hell and we're not going to take it anymore.

The digital economy puts us in a constant bind. We can't avoid it, but we don't feel entirely safe: 80% of people surveyed said they'd bought something online within the last 3 months, but 21% of people said they worried about inputting their card details every time they made a transaction. Another 31% said they worried frequently when buying something online. That's a lot of transactions completed anxiously. It means we're looking over our shoulder a lot: 68% of people said that they check their bank accounts at least weekly, with a staggering 29% saying they look every day.

Some might argue that consumers aren't losing any money to fraud, even if they're worried. By and large, banks are refunding fraudulent charges (93% of people said they got their money back when they reported fraudulent charges). Given all the new conveniences opened up in the digital economy, surely having to spend an hour on hold with your bank every now and then might be worth it?

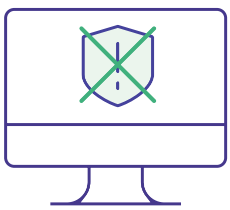
Consumers were pretty clear that it's not. They may enjoy having consumer goods sent to their doorstep and food from any restaurant brought to their house, but the stress of fraud doesn't make up for it. Sixty-nine percent of consumers said the stress of card fraud wasn't a fair-trade off for the conveniences of the digital economy, and 59% said they didn't accept fraud as a built-in part of the digital economy.

The overwhelming feeling is…it doesn't have to be this way: 63% of people said that they didn't accept it as inevitable that they would be the victim of fraudulent transactions.

Key stats

More than half

of all consumers surveyed said that they worry regularly about fraud.



59%

of consumers said they did not accept fraud as part of the cost of a digital economy.

Consumers might be mad about fraud, but they're also their own worst enemy.

We're getting hit, a lot, and we don't feel it has to be this way. However, many of us are leaving ourselves open to fraud. More than half (52%) of all survey respondents said they could be better at protecting their card information.

The average consumer has 1.5 debit cards and 2.7 credit cards, and they're terrible at keeping track of them. Less than a third of total respondents (29%) said they noticed immediately when their card was stolen or went missing. Forty-two percent said it took them more than an hour to work out that their card was gone.

So from the outset, we're putting ourselves behind the eight-ball and giving fraudsters a head start. Less than half of people said they canceled a card immediately after they noticed that it was gone.

We're not paying enough attention and we're not acting fast enough. More than half of all fraudulent transactions (52%) reported in our survey happened within 30 minutes of a card going missing.

When you figure that roughly half (49%) of people surveyed didn't know that their card was missing at the moment it was used for a fraudulent transaction, it's evidence that we're not entirely acting in our own interests.

Key stats

Less than a third

of total respondents (29%) said that they noticed immediately when their card went missing or was stolen. Forty-two percent of people said it took more than an hour for them to notice.

Less than half

of people said they canceled a card immediately after they noticed that it was stolen or missing.

More than half

of all fraudulent transactions (52%) happened within 30 minutes of a card being stolen.

More than half

(52%) of all survey respondents said that they could be better at protecting their card information.

Technology can be part of the answer, not the problem

Consumers would be happy with a slower, but safer, digital life.

More and more, our lives are moving online. If we weren't already shopping online daily, the shelter-in-place orders related to the COVID-19 outbreak increased both the frequency and the variety of our online purchases. Consumers found themselves increasing the use of their banking and entertainment subscriptions, and trying new services like food and grocery delivery as their digital lives expanded. Services that were once "nice to haves" have become essential.

As we move more purchases online, fraud follows us into our digital lives through card, payment, and banking services that are all so essential to today's economy. Respondents were willing to sacrifice convenience in their online purchasing if it would help mitigate fraud. Eighty-seven percent of respondents said that they would be happy for transactions to take longer to complete, if extra steps for authentication meant their information was better protected.

Respondents held banks and financial institutions responsible for predicting fraud, with 70% of respondents surveyed saying their bank should be able to more accurately predict fraud, but only 54% saying their bank had ever actually proactively alerted them to fraud.

As our lives become more immersed in digital technologies and we engage with more services that include payments — like cards that come with digital bank accounts or peer-to-peer accounts — the more consumers may look to those services, as well as their bank when fraud prediction and protection becomes an issue.

Key stats

87%

of consumers said they would be happy for transactions to take longer to complete, if extra steps for authentication meant their information was better protected.

70%

of people surveyed said that their bank should be able to more accurately predict fraud.

54%

of people surveyed said they have never been proactively alerted to fraud by their bank.

Consumers feel like fraud is a preventable problem.

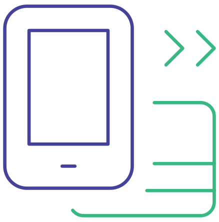
As consumers become more digital and the high and growing rates of fraud continue to rise, many consumers are hopeful that fraud won't hit home. The majority of consumers (63%) said they didn't think it was inevitable that they would be a victim of fraud just by participating in the digital economy, and 59% did not accept that fraud was just a natural part of the cost of having a digital economy. Only a minority group of consumers, 31%, who love the convenience of new digital payment methods thought that the risk of fraud was a fair trade-off for those conveniences.

Key stats

63%

of consumers said they did not see it as inevitable that they would be the victim of a fraudulent transaction.

Only 31%



of consumers said that the risk of fraud was a fair trade-off for the convenience of new digital methods of payment.

Consumers are also willing to change their shopping habits to try and avoid fraud.

Most consumers are committed to the seamless conveniences of the digital economy, and they believe that fraud doesn't have to be an integral part of their experience online. Despite limited knowledge about how to avoid fraud, the vast majority of consumers are willingto alter their behavior to try and avoid becoming a victim.

A large majority (87%), was willing to adjust their expectation of immediacy and allow slower transactions and/or extra steps for authentication if it meant their transaction was more secure.

Seventy-five percent of consumers said that they would be willing to manually enter their payment information repeatedly, instead of having it stored by a merchant, which they viewed as less secure. Seventy-seven percent would even be willing to change who they shopped with based on whether or not they stored customer card information.

Key stats

75%

of consumers would prefer to manually enter their payment information over having it stored by a merchant.

77%

would choose to shop at a merchant who didn't store their card information rather than a merchant who did.

A lack of consumer education is holding all sides of the market back.

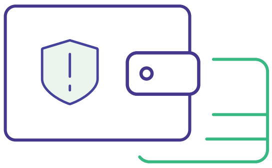
Ordering groceries online, jumping out of an Uber/Lyft on the way to work, and transferring money from your bank account to your peer-to-peer sharing app have all become commonplace today, but each is built upon sophisticated payments technology that most consumers don't understand. Fear of fraud and misinformation about how to avoid it can lead to slow adoption rates of new technology. This is the same technology tht drives the payments innovation that consumers are eager to enjoy in the digital economy.

Of the respondents, 80% thought, incorrectly, that a physical card was a safer method of payment than a mobile wallet. For many (54%), the mere risk of fraud made them less likely to try out newer technology like a mobile wallet.

The more modern card issuing platforms support modern payment innovation like virtual cards, tokenization, and mobile wallets, the more these services will need to help their customers understand how their technology is helping to protect them from fraud, especially as rates of fraud continue to grow and the fear over becoming a victim of fraud follows.

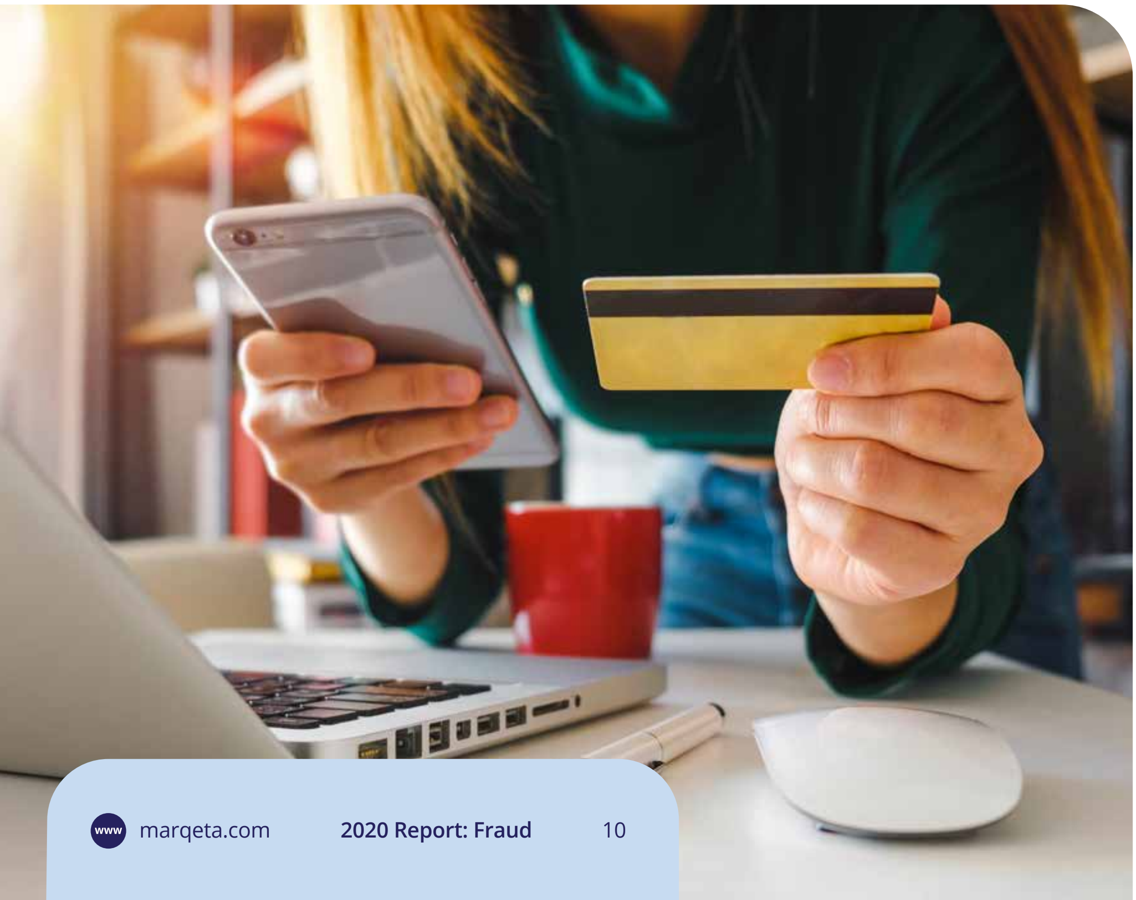
The crux of this issue is that when things go bad for consumers and fraud does hit, they turn to people, not technology to fix it. Fifty-seven percent said they called a customer helpline to report fraudulent charges, while just 16% said they used their banking app.

Key stats



54%

of all respondents said the risk of fraud made them less likely to try out newer technology like a mobile wallet.



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Conclusion

Founded in 2010, Marqeta is the first global modern card issuing platform. Our company DNA is grounded in a belief that with the right payments infrastructure —built off open APIs — in place, and the right payments expertise to guide implementation, payments innovators are limited only by their own imagination as to what they can build. With the dynamic spending controls offered by the Marqeta platform, we've been able to reduce fraud rates significantly below industry standards.

But the issues raised by our comprehensive fraud survey show that the answer is more than just technology. The fear of fraud is holding consumers back from understanding the benefits of new payment technologies, which is throttling adoption. When hit by card fraud, anxious consumers are turning away from technology for and toward comfort of talking to a person. There's a massive education gap that all financial services providers need to tackle head on, about the risks consumers face, how they're working to address them, and the technology that can play a real role in this process.

Consumers need to know about the incremental benefits of the new technology you're releasing. Modern card issuing infrastructures empower you to build in payment experiences that surprise and delight your customers, which can go a long way toward easing consumer worry, building your brand, and growing your customer base in the process.