

Frictionless payments threaten security for online merchants

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Biometrics will help online retailers protect themselves from fraud – but maintaining customer experience at the same time may be a challenge.



By Anna Fedorova

According to a report by Paysafe, 52% of small to medium-sized enterprises (SMEs) across the globe that operate online worry that the move to frictionless payments, such as transactions taking place via apps, is leaving them open to fraud and will have a negative impact on revenues.

The report, 'Lost in transaction', also found that in the UK, 66% of respondents believe they are being more aggressively targeted by fraudsters now than they were a year ago.

It is not surprise, then, that 59% of e-commerce businesses consider security their top priority.

But according to Paysafe Group's chief marketing officer, Oscar Nieboer, online merchants are reluctant to make the necessary security changes.

This is in part due to worries that longer authentication processes could scare away customers – a concern for 70% of respondents to the survey. Some 65% admit they simply do not know how to balance security with an acceptable customer experience.

"This was despite nearly 80% of respondents confirming their customers were happy to accept improved security measures such as two-factor authentication," Nieboer says.



Oscar Nieboer,
Paysafe

Biometrics

With demand from customers growing and fraud becoming more sophisticated, online merchants cannot afford to ignore this threat and must look for innovative methods that combine security with a frictionless customer experience.

"Biometrics is going to be the future," says Andrew Mitchell, vice-president for development and infrastructure support at JCB, a Japanese card payment company, which already uses biometric authentication.

"Consumers are looking for the most frictionless ways of using technology to make payments," he says, "and this is where biometrics can come in."

According to a survey by GlobalData, a digital media company based in London, 67% of global consumers would be happy to use some form of biometrics to secure their payment details. As such, the firm is calling for more banks to adopt biometric authentication technology to stop customers from switching accounts to rival providers.

Industry experts agree that the application of biometrics has the potential to tackle fraud more effectively than ever before, but more has to be done to roll it out to different aspects of a banks' operations, says Heike van den Hoevel, senior wealth management analyst at GlobalData.

"Banks often worry about the balancing act of extra security and maximizing convenience, but clearly there are solutions such as biometric security that can address both. It's time to act or be left behind," van der Hoevel says.

Smaller scale

While this could be a good fit for large banks and retailers, smaller e-commerce merchants must look for other ways to improve their security to be able to remain competitive.

"One solution may be the emergence of vouchers and online cash," says Nieboer, "which allow the customer to pay without sharing any financial details, an area which is likely to develop considerably, with 75% of merchants looking to offer multiple means of payment options within the next two years."

Online shopping demands equal measures of convenience and security," Worldpay writes. "Digital wallets deliver on both counts
- Worldpay

According to Worldpay's global payments report, which came out in mid November, the search for a solution has propelled the popularity of e-wallets, a secure location containing one or more currency purchases.

"Online shopping demands equal measures of convenience and security," Worldpay writes. "Digital wallets deliver on both counts."

It continues: "Mobile applications integrate the act of payment into daily lifestyles and routines, while preloaded credentials speed online checkout. E-wallets do all of this safely with encryption, tokenization, and device authentication providing extra layers of security. We expect continued growth in China and a surge of adoption in North America will propel e-wallets to become the leading e-commerce payment method globally within five years."

Customer behaviour

Artificial intelligence solution may also be of use.



Justin Lyon,
Simudyne

"The most effective way for merchants and retailers to increase security in today's digital landscape is to use transaction-level data to model customer behaviour," says Justin Lyon, chief executive of Simudyne, a company offering simulation software that allows firms to design virtual environments to model the behaviour of customers in a secure way.

"We are not saying that they should draw conclusions directly from the raw data," he says. "But this raw data contains behaviours in the form of dynamics and patterns, and this needs to be modelled to understand the best policy decisions. It is very important to keep consumer data secure. This type of modelling achieves this.

"Merchants and retailers can integrate these customer models into a broader model of the marketplace and a bank's credit products," he says. "Using effective computational simulation, these models can inform decisions in a way that raw data just can't match."

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