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Security Costs E-Commerce \$2 Billion in '06

Nearly half of U.S. adults have concerns about shopping online and distrust email, causing problems for companies that interact with customers via the Internet.

by [Colin Beasty](#)

Thursday, November 30, 2006

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E-commerce sales have once again experienced consistent revenue increases. But today, the 19th annual International Computer Security Day, when security professionals raise awareness of computer and network related security issues, Gartner has revealed that recent security breaches (both online and offline) are having a significant impact on buying patterns of U.S. adults. Due to consumer's concerns about the security of the Internet, nearly \$2 billion in U.S. e-commerce sales will be lost in 2006, according to Gartner's survey of 5,000 online U.S. adults in August 2006. Approximately \$913 million in 2006 e-commerce sales was lost because of security concerns among online shoppers. Another potential \$1 billion was lost from shoppers who refuse to shop online because of security concerns.

Nearly half of online U.S. adults, or 46 percent of more than 155 million people, say that concerns about theft of information, data breaches, and/or Internet-based attacks have affected their purchasing payment, online transaction, or email behavior. Of all the behaviors affected, online commerce (including online banking, online payments, and online shopping) is suffering the highest toll. "Financial institutions and other e-commerce service providers need to beef up security in their online channel to retain customers, but they must be careful to keep the added measures relatively convenient," says Avivah Litan, vice president and distinguished analyst at Gartner.

Gartner recommends that enterprises employ a two-prong strategy--increasing consumer confidence while reducing fraud and keeping the crooks out. "The two goals don't necessarily call for the same technical solutions since the most effective fraud prevention applications are often invisible to consumers and criminals," Litan says. "A layered approach to solving security problems is the most effective. Companies should implement back-end fraud detection, stronger user authentication (beyond single factor passwords), transaction verification for high-risk transactions, and data masking/truncation of sensitive data that is shown on Web-based screens."

Gartner estimates that these security concerns have kept approximately 33 million U.S. adults from banking online. According to the survey, nearly 9 million U.S. adults have stopped online banking altogether, while another estimated 23.7 million won't start because of their security concerns.

Perhaps the biggest impact is a newfound and serious consumer distrust of email. About 70 percent of online consumers whose behavior has been affected by recent security incidents say that their concerns have affected their trust in email from companies or individuals they don't know personally. Of these, more than 85 percent delete suspect mail without opening it. "This

figure has serious implications for banks and other companies that want to use the email channel to communicate more cost-effectively with their customer base," Litan says. "For example, sending a bill electronically costs about half of what it costs to send that same bill through the regular mail."

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