



- Home
- News ▶
- Technology ▶
- Markets ▶
- Personal Journal ▶
- Opinion ▶
- Leisure/Weekend ▶

The Print Edition

Today's Edition

Past Editions

Features

Portfolio

Columnists

In-Depth Reports

Discussions

Company Research

Markets Data Center

Video Center

Site Map

Corrections

My Online Journal

Personalize My News

E-Mail Setup

My Account/Billing

RSS Feeds

Customer Service

The Online Journal

The Print Edition

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Help

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Internet Scams, Breaches Drive Buyers Off the Web, Survey Finds

By RIVA RICHMOND
DOW JONES NEWSWIRES
June 23, 2005; Page B3

A deluge of online scams and breaches of financial databases are taking a toll on electronic commerce, a survey from research firm Gartner Inc. shows.

In a disturbing message for online retailers and bankers, more than 42% of online shoppers and 28% of people who bank online are cutting back on their activity because of "phishing" attacks and other assaults on sensitive data, according to a May survey of 5,000 U.S. online consumers by Gartner, scheduled for release today.

The firm estimates that growth in electronic commerce and online financial services during the next three years will be one to three percentage points lower than if electronic information were better safeguarded. Before taking into account the concerns about doing business online, Gartner had predicted e-commerce -- excluding travel, entertainment tickets and car sales -- would grow 18% in 2005, 15% in 2006 and 11% in 2007.

In phishing scams, fraudsters use emails designed to look like the messages from banks or other trusted companies to induce consumers to visit fake Web sites and divulge private information. Consumers' fears about online fraud have increased as more have received phish emails, their computers are fouled with thieving viruses and hacker programs and companies reveal mass thefts of credit-card numbers from databases.

"These attacks and disclosures are taking a steep toll on consumer confidence," says Gartner analyst Avivah Litan. "The only place [consumers] can show their concern is in their online behavior."

While respondents said break-ins into company databases troubled them the most, they also worried about continued escalation in phishing scams, which emerged as a leading online threat to consumers last year.

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About half of the country's 148 million Internet users believe they have received a phishing email, up 28% from a year ago, according to Gartner estimates based on its survey. Some 2.4 million online users have lost money to Internet scams, with total losses amounting to about \$929 million in the 12 months ended in May, Gartner estimates.

According to the firm, Internet service providers and companies that serve consumers online see 150 to 200 different phishing attacks each week, four times as many as they saw just six months ago.

In addition, phishing attacks are getting more sophisticated. Phishers are targeting customers of smaller, less-well-defended companies and increasingly are trying to install hacker programs that can gather data silently, Gartner says. The variety of scams also is expanding to include some solicitations posing as sweepstakes promising rich prizes, for instance.

Indeed, almost 46% of online consumers surveyed reported having found malicious software on their computers. More than 83% said they had anti-spyware programs running on their PCs to help them stay safe.

Nevertheless, more than 80% of those surveyed said concerns about Internet security have reduced their trust in email. Of these, more than 85% delete suspect mail without opening it, suggesting that some businesses sending legitimate email may be losing an efficient and low-cost method of communication with customers.

But the more obvious economic toll comes in consumers' increasing distrust of e-commerce and online banking. According to the survey, 33% of online shoppers concerned with Internet fraud are spending less money than they would if they weren't concerned. And 77% of concerned online-banking customers said they are using online banking services less frequently. More than 4% of those Internet banking customers concerned with fraud have abandoned online banking altogether.

"We can't go on business as usual" without risking the future of online commerce, Ms. Litan says. "This is a watershed year. Everyone you talk to understands that their data aren't safe."

Something Phishy

How U.S. Internet consumers are being affected by phishing and identity theft activity, based on a survey of 5,000 adult online users in May*

Among concerned online shoppers:

More cautious where purchasing goods online



More careful entering sensitive data on sites



Buying fewer items than otherwise would



Among concerned consumers banking online:

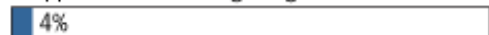
Logging in less frequently



Stopped paying bills via online banking



Stopped online banking altogether



*Margin of error is +/- three percentage points

Source: Gartner Research

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