



ERIA Research Project Working Group (WG2)<sup>1</sup>  
**Establishment of a Secure and Safe e-Commerce  
Marketplace**

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NEC Corporation  
Tokyo, Japan



Presentation of:  
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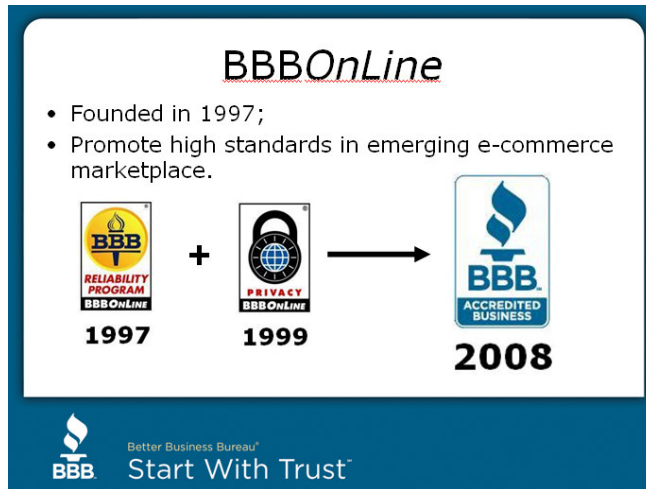
Thank you. It is a great honor to have been asked to present at this important ERIA working group workshop on the establishment of a secure and safe e-commerce marketplace. I hope we will be able to make some small contribution to your work here today.

Let me begin by providing you with some quick background information on the organization I represent, the Better Business Bureau, or "BBB" for short.

Founded in 1912, BBB is a non-profit, North American organization that sets and upholds high standards for fair and honest business behavior. Businesses that earn BBB accreditation contractually agree and adhere to the organization's high standards of ethical business behavior. BBB provides objective advice, free business BBB Reliability Reports™ and charity BBB Wise Giving Reports™, and educational information on topics affecting marketplace trust. To further promote trust, BBB also offers complaint and dispute resolution support for consumers and businesses when there is a difference in viewpoints. Today, 125 BBBs serve communities across the U.S. and Canada, evaluating and monitoring nearly 4 million local and national businesses and charities.

Several of you may recall that in 1997, the BBB founded a program called *BBBOnLine*, designed to promote high standards of business practice in the emerging world of e-commerce. The *BBBOnLine* Reliability program grew from a fledgling few BBB "trustmark" seal holders in 1998 – added a Privacy seal in 1999 – and stood at around 29,000 Reliability and Privacy seal holders in 2005, when I last spoke to the GBDe and GTA meetings in Brussels. In partnership with GBDe,

and a group of European and Asian organizations, BBB helped encourage the formation of both the Global Trustmark Alliance and the ATA, and entered into a number of pilot dispute resolution agreements with organizations in Asia and Europe.



Today, BBB has over 47,000 online trustmark seal holders, and is in the process of consolidating its seals into one powerful online and offline BBB trustmark for all BBB Accredited Businesses. More on that in a few minutes.

My colleagues from EC Network have done an excellent job of explaining the “what” – what we are all doing to build the reliability of ecommerce in cross-border transactions. I’d like to use my remarks to remind us all of the “why” – why we are doing this – and why it may have gotten considerably harder.

There is an often-quoted saying in English, one that is said to have its origins as an ancient Chinese curse: “May you live in interesting times”. This was supposed to be the first of three curses of increasing severity, the other two being: “May you come to the attention of those in authority” and “May you find what you are looking for”. Although I have searched fairly thoroughly online, I cannot find any reference to an original Chinese source for this, making its exact origin doubtful.

But cursed or not, we certainly are now living in interesting times – and very difficult – times. The financial earthquake warning detectors went off as the U.S. sub-prime mortgage market began to collapse in early 2008, and alarm bells began ringing in financial capitals throughout the interconnected global financial markets.

However, the financial earth started truly shaking during the week of September 7<sup>th</sup> in the U.S.

We quickly learned how sub-prime mortgages, granted to people in the U.S. who could not afford them were packaged as securities and sold to other financial firms, who then repackaged them and sold them to other financial institutions (sometimes multiple times), where they ended up in some other part of the world – perhaps in a Norwegian village pension fund or a police retirement fund in Wales.

In the space of roughly 90 days, we've had weekly doses of new bad news, weekly lists of corporations we once thought stable now threatened and we've seen, by one estimate, 50 trillion in global wealth simply vanish.

So my message today will start with a strong warning and end – I hope – on an optimistic note.

First, the warning.

It is hard to talk about “establishing a safe and secure e-commerce marketplace” without recognizing the impact that this past year – and

what we may still have to face in the coming weeks and months – will have on e-commerce.

For a financial system to work, whether it is within a small town, or a country or in a global marketplace, individual investors and then increasingly larger and larger institutions have to be able to have trust in one another – trust that everyone will behave with integrity, that rules and safeguards are in place and being monitored, that there is sufficient transparency to ensure that everyone can see that the rules are being followed, that those who breach the rules are sanctioned and most important of all, that rule breakers are the exception.

The past 90 days seem to be teaching us the lessons that – in too many of our global institutions and under too many circumstances – the opposite has been true.

In 2005, New York Times correspondent Thomas L. Friedman published his book *The World is Flat*. Updated in 2006 and again in 2007, the book makes important points about partnerships and relationships in the new global “flat” economy. With regard to these critical relationships, Friedman notes:

*Without trust, there is no open society, because there are not enough police to patrol every opening in an open society. Without trust, there can also be no flat world, because it is trust that allows us to take down walls, remove barriers, and eliminate friction at borders. Trust is essential for a flat world . . .”*

Steven M. R. Covey, author of the 2006 book, *The Speed of Trust*, makes a number of compelling points. Like Tom Friedman, he believes that trust is the key ingredient for the global economy. His essential point is this:

- When TRUST is high, speed goes up and costs go down.
- When TRUST is low, speed goes down and costs go up.

Here is a brief person example. At the end of May in 2001, I was invited to give a presentation on consumer dispute resolution for the U.S. State Department in Paris and Rome. I arrived at the Dulles airport in Washington about an hour before my flight and breezed through security. The same thing happened between Paris and Rome and between Rome and Washington.

Then we had the tragedy of September 11<sup>th</sup> in New York and Washington.

In early December, a little more than 2 months after the terrorist attack, I was invited to speak to the Italian Chambers of Commerce in Rome. I had to arrive at Dulles airport nearly 4 hours early. The security lines were much longer, no one really knew what they were doing, so they were almost (but not quite) checking every piece of carry on luggage by hand, which would have made for an impossible situation, except that so many people had lost faith in flying that many flights were going with half empty planes.

The difference? Before September 11<sup>th</sup>, trust was high, speed was high and costs were lower. After September 11<sup>th</sup>, trust was low, speed was slow and costs were much higher.

Covey cites two writers who both speak to this, one an American poet, Ralph Waldo Emerson; the other, a British author, G. K. Chesterton. Here's what they said:

*Our distrust is very expensive.*

Ralph Waldo Emerson

*When you break the big laws, you do not get liberty; you do not even get anarchy. You get the small laws.*

G. K. Chesterton

For more than a decade, advocates of cross-border ecommerce have worked to try and ensure that governments recognized the importance of keeping the artificial administrative and regulatory barriers as low as possible to encourage the growth of this amazing and empowering new medium for commerce. But as TRUST breaks down, as big organizations get caught breaking big rules with impunity, it is very possible that we will indeed get Chesterton's small laws – tens of thousands of them – that will have the effect of adding up to a collective strangle lock on all commerce, including e-commerce. That is, unless we work well and thoughtfully together, as we have so often done in the past, to find creative ways to collaborate – governments, NGOs and the private sector.

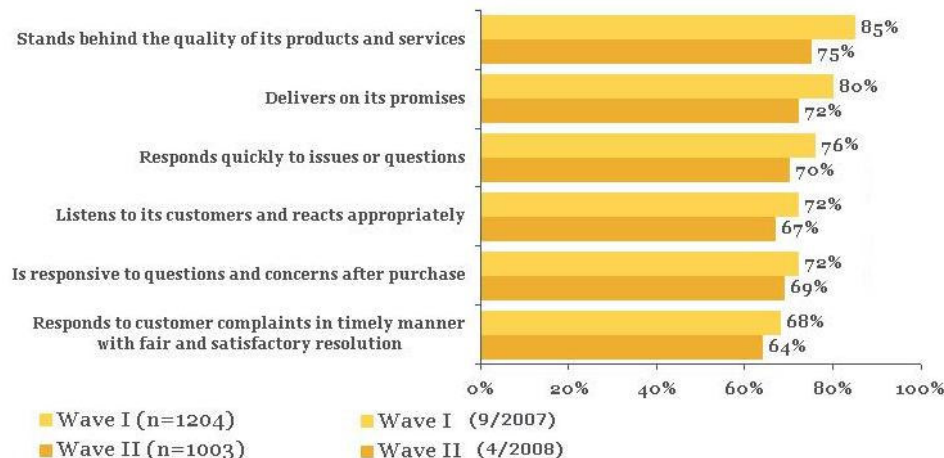
When we are talking about cross-border commerce, whether it is trillions of dollars in the global financial markets or the potentially large volume of much smaller amounts in cross-border consumer e-commerce transactions, in the end, it all boils down to **TRUST**.

And when TRUST plunges, as I believe it is now doing, our ability to encourage cross border ecommerce – where buyers and sellers are in different countries, and often do not know one another, even by reputation – the great benefits of ecommerce that we have worked so hard to promote are in jeopardy. Let me cite some examples.

In the Fall of 2007, and again in the Spring of 2008, the BBB in cooperation with the Gallup organization, conducted two surveys of American consumers. Over 1,000 consumers were surveyed. The spring '08 survey measured deviations from '07 baseline. Our purpose was to learn how consumers define trust, determine how trust impacts consumer decisions to become customers, and identify emerging needs and actions that businesses can use to address consumers' concerns. The complete study is available on our web site<sup>2</sup>.

Here are some of the top line results.

All Consumers Who Name a Most Trusted Company





Currently, seven in ten or more of the consumers surveyed for the April 2008 survey strongly agreed that the company they trusted the most;

- Stands behind the quality of its products and services (75%)
- Delivers on its promises (72%)
- Responds quickly to customers' issues and questions (70%)

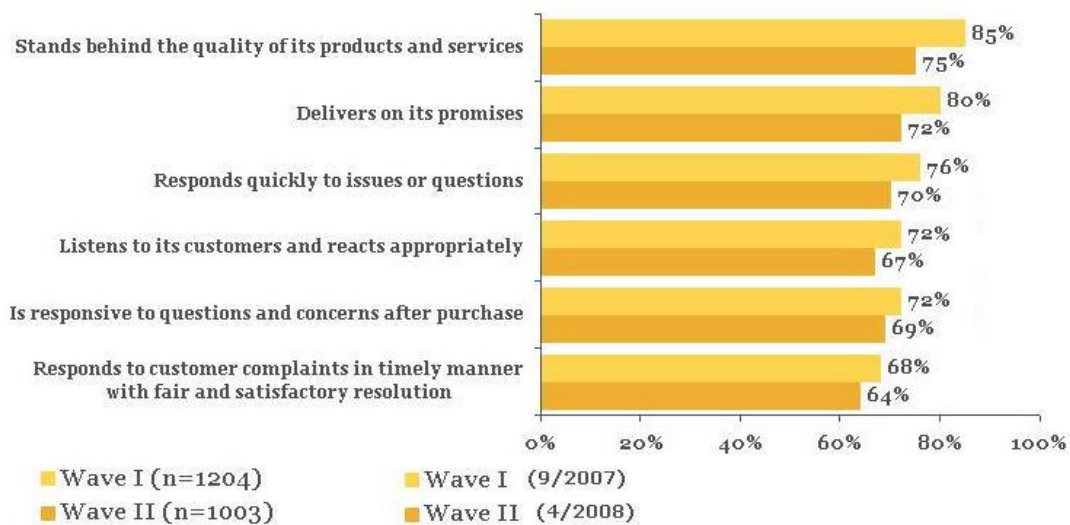
but notice that the three following responses are all variations of this theme – consumer complaint handling in one form or another.

Over the six-month period – September 2007 to April 2008 – the amount of trust Americans had in the businesses they deal with everyday – including 15 selected industry groups – declined on average by 14%. Declines took place in 13 of the 15 industry groups surveyed:

- The largest declines in TRUST of 19% were experienced by real estate brokers and auto dealers;
- Double-digit declines in TRUST also took place in department stores (16%), gas stations (15%), furniture stores (14%), banks (12%), home improvement stores (11%), auto repair shops (11%), and contractors (11%), and:
- Declines in TRUST also took place in drug stores (9%), grocery stores (7%), office supply companies (3%), and electronics and appliance stores (3%).
- TRUST was unchanged among health care insurers and increased in cell phone and wireless service providers.

The study is rich in detail, which I won't go into here. However, Gallup did ask one final question which may be of interest to trustmark organizations like the BBB and those in ATA: We asked whether it would increase TRUST in companies consumers do business with every day if companies allowed credible third parties to assess their performance and if government became more actively involved in regulating company performance. At the time of the survey, 86% of respondents thought it would be very or somewhat helpful to have credible third party assessment, while only 58% felt similarly about government involvement.

All Consumers Who Name a Most Trusted Company



These results were based on telephone surveys of 1003 adults taken between March 26<sup>th</sup> and April 20<sup>th</sup>, 2008 and publicly released on August 25<sup>th</sup>. So, the results reflect American's opinions about businesses they regularly dealt with after the housing market had begun to crumble and after oil prices had reached record levels per barrel – but before the financial markets began to collapse in

September. The next BBB Trust in Business survey will take place in March/April of 2009 and will reflect views of TRUST after the melt down. I expect it will be sobering, with much different results in certain key areas.

So, here are a few key points for what is going to follow:

- TRUST is a key ingredient for every business transaction;
- Even before the financial markets began to collapse in September, we have evidence that – at least in the United States – consumer TRUST in business – EVEN BUSINESSES THAT CONSUMERS REGULARLY DID BUSINESS WITH EVERY DAY – was declining.
- TRUST is adversely affected by distance – the world may be flat, but the less I know you, the less I know about your business, the harder it will be for me to TRUST.
- Businesses have more resources through which to learn about other businesses; consumers have fewer resources and therefore have more need – but less reason – to TRUST.
- As we have all said for nearly 15 years, the success of cross-border e-commerce will depend on finding ways to build – and maintain – trust over time. And the challenge of doing so just got appreciably harder over the last 90 days.

Let's turn to what problems merchants and consumers have with cross-border ecommerce. We have some ideas – from merchants, through a survey we did in 2004 of over 1,000 BBB*Online* merchants in the United States and Canada and, from consumers, in the complaints they file online.

Here are some key highlights from the 2004 survey of BBBOnline U.S.-based merchants<sup>3</sup>:

- 46% of the respondents used their web site to engage in e-commerce; the balance (53.8%) used their site as an information or advertising portal to bring business to their fixed place of business;
- Of those who sold online, over 80% accepted either credit cards or PayPal (or both) as their method of payment;
- Of those who sold online, nearly 80% used either U.S. postal service, FedEx or UPS to ship;
- 41% indicated that they sold to customers outside the U.S. or Canada, but of that 41%, 77% indicated that those sales amounted to 10% or less of their total business;

When asked to describe barriers to e-commerce, BBBOnline participants most frequently cited three major concerns:

- payment fraud,
- shipping problems and high costs
- and extra paperwork for customs.

In detailed narrative responses, businesses repeatedly note that customs requirements are designed for large producers shipping big products (like oil rigs) and not company shipping a small, single consumer product across borders. As one merchant put it:

*"Our average order contains about 20 different products that we source from many different countries. We are required to list the country of origin for each item. It can easily take 30*

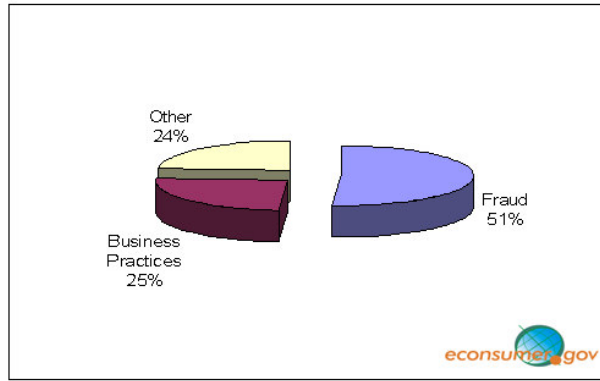
*minutes to fill out the paperwork for a \$20 order”.*

Let me turn to the consumer arena and give you some statistics from three sources: e-consumer.gov (administered on behalf of the International Consumer Protection and Enforcement Network) by the U.S. Federal Trade Commission; The recent joint cross-border complaint experiment BBB undertook in cooperation with TrustUK/WebtraderUK and the Direct Marketing Association in the UK. And finally, BBBs own cross-border complaint handling.

I asked the FTC for its most recent 6 months of complaint data for e-consumer.gov. This covers the period from January – June of 2008 and represents over 8,400 consumer complaints and over 11,000 consumer law violations reported by the ICPEN member states. This first chart shows the econsumer.gov breakdown of complaints into 11 major categories.

In the next slide, for the sake of simplicity, I have combined certain categories into three basic ones: complaints that are fairly clearly dealing with fraud, those that are more likely “business practices” and those that econsumer.gov classified as “other” and are, therefore, “unknown”.<sup>4</sup>

# E-Consumer.gov



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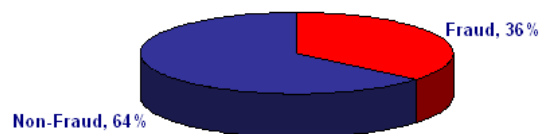
Next, I'm going to turn to the report we presented to the GBDe meeting in 2005 in Brussels, regarding the cross-border complaint handling agreement between TrustUK/WebtraderUK (administered by the DMA-UK) and the BBB.

There were several slides we used in that presentation, but the most important were these two:

- Of all the complaints exchanged between the two organizations, 36% involved some form of fraud.

## BBB/TrustUK Agreement

**Fraud – 36% of Total**

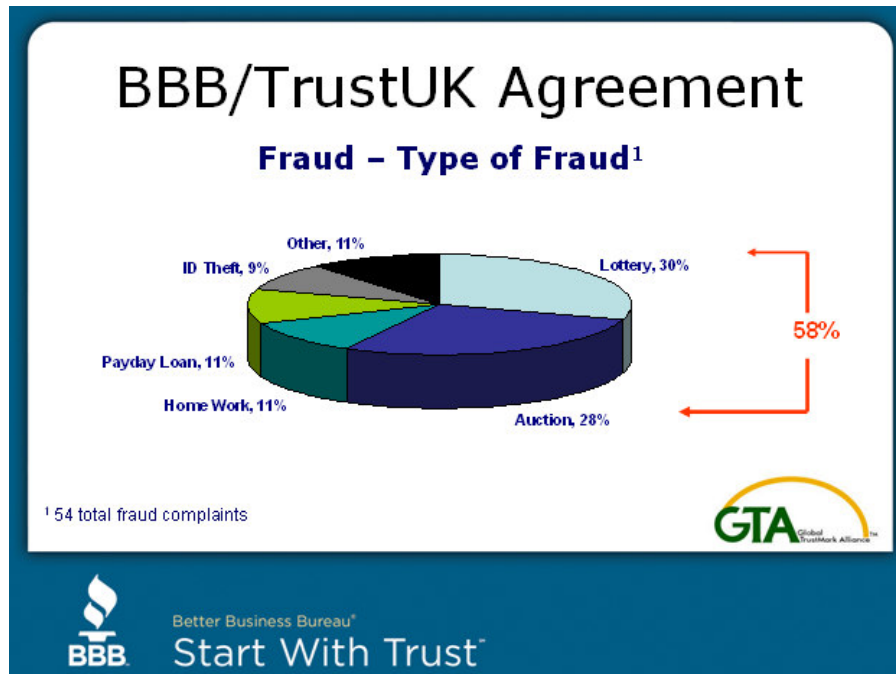


- Average Value of All Cases – 963.04 USD
- Average Value of Fraud Cases – 1,357 USD
- Average Value of Auction Fraud Cases – 1,538 USD



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- Looking deeper at the fraud, 58% involved either “lottery” fraud (30%) or “online auction” fraud (28%), and another 9% directly involving some form of identity theft. It is probably fair to say that identity fraud would eventually show up in the “lottery” or “auction” fraud at some point in the future.



Finally, let me turn to the 2007 annual statistics for the BBB. During that year, the BBB handled nearly 830,000 written complaints filed by consumers in the U.S. and Canada, plus the U.S. BBB system handled another nearly 30,000 auto warranty disputes through a special mediation and arbitration program called BBB AUTO LINE. Finally, the BBB provided nearly 55 million reports on companies to consumers before those consumer did business.

Although the year hasn’t ended yet, I asked our technical staff to give me a report of 2008 complaints closed from January 1 through November 30<sup>th</sup>, where the consumer lived outside the United States

OR Canada and was filing a complaint against a business located in the United States. That number turned out to be 915 consumers, a very tiny slice of what we estimate will be many more than 830,000 consumers this year, but probably more than 1,000 by the end of 2008.

Where do these consumers come from? Well here are the top 10 countries, and how they stack up against the top 10 from econsumer.gov (since, I've eliminated the U.S. and Canada as sources of complaints on our list, so I'm only showing the "top 8" from econsumer.gov):

<b>Consumer Country</b>	<b># Complaints</b>	<b>Consumer Country<sup>5</sup></b>	<b># Complaints</b>
United Kingdom	206	Australia	206
Australia	128	United Kingdom	128
Germany	40	India	38
Mexico	38	France	34
India	34	Germany	32
France	32	New Zealand	27
The Netherlands	27	Spain	26
Switzerland	26	Ireland	25
Japan	25		
Singapore	25		

Grouped by region, 51% of the complaints are coming from Europe, 18% from the Asia/Southasia/Pacific region, 16% from the Australia/New Zealand region, 10% from the Americas (excluding the U.S. and Canada) and 5% from the Middle East and Africa.



As I turn now to a comparison of settlements, we were able to settle 58% of all the cases we received from overseas consumers, with 36 percent unsettled and 6 percent categorized as “unpursuable”, which probably wouldn’t be considered too bad a record, unless it is compared with our record for resolving cases filed by U.S. and Canadian consumers, where our settlement rate goes up from 58% to a much more respectable 73%.

Here, too, I’m afraid that the difference in these settlement rates – in fact the difference between the settlement rates of the best companies and the 58% settlement rate in the cross-border setting – is likely that there is just more outright fraud, misrepresentation and the opportunity to take advantage of customers in this cross border environment.

So, it is time to bring this all to some sort of a conclusion. And I’m afraid that some of this is not very good news. In summary, here’s those 5 key points again:

- TRUST is a key ingredient for every business transaction;
- Consumer TRUST in business was declining BEFORE 9/08;
- TRUST is adversely affected by distance;
- Consumers have more need – but less reason – to TRUST in a global market;
- Success of cross-border ecommerce depends on building and maintaining trust over time – and the aftermath of 9/2008 is making that more difficult.

If you look at the information that I presented from econsumer.gov and from the results of our cross-border experiment between BBB and TrustUK, we should all be concerned about the implications for cross-border ecommerce.

Based on the econsumer.gov statistics, if you were a venture capitalist and I came to you with a business plan where 51% of all transactions resulted in some sort of fraud, would you back the venture? And while my BBB/TrustUK statistics were somewhat better with a 36% rate of fraud, I think you might still look for a somewhat safer business model. Using the BBB statistics, how willing will consumers be to engage if 42% of cross border consumers with a problem can't get satisfaction?

Fortunately, there are many organizations like the Economic Research Institute for ASEAN and East Asia, OECD, business groups like GBDe and the Asian Trustmark Alliance – and so many more – as well as governments at all levels – that have been collaborating over more than a decade to ensure that there are good solid answers to these questions.

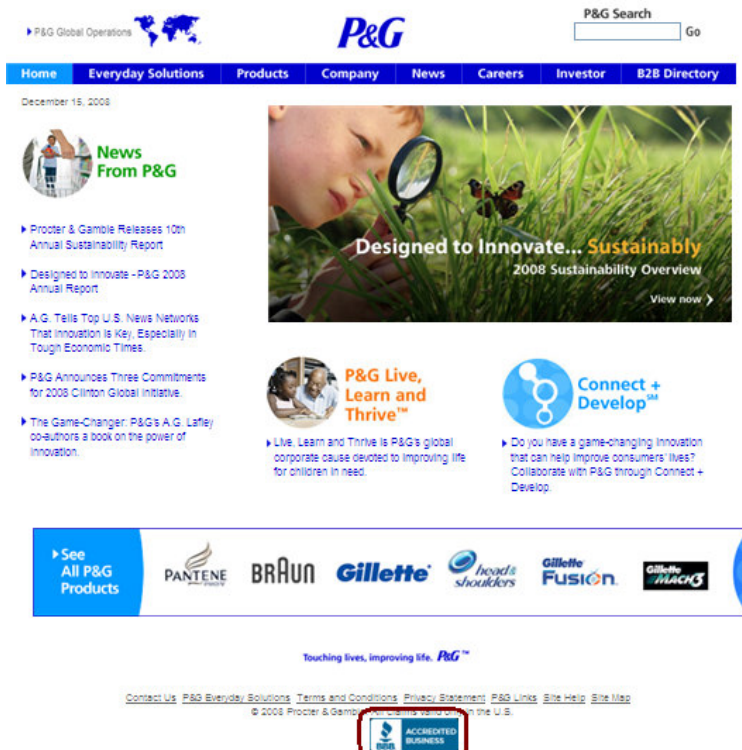
For cross-border ecommerce, the answers are more important now than they have ever been, and they really haven't changed very much in the decade that I've been working with BBBOnline:

- A common framework of high-level, internationally accepted standards of online business practice – standards that encourage consumer TRUST in cross-border commerce and are not the “small laws” that make it difficult or impossible for merchants to deal practically across borders;

- Simple methods of resolving problems when they arise, with as little resort to legal systems as possible;
- Ways for consumers to identify those merchants who have committed to abide by these standards and who participate in these dispute resolution mechanisms.

These are all the essential elements of “trustmark” programs – programs that have received wide encouragement from governmental organizations and private groups in many parts of the world.

To these three, I would add a fourth. Based on the very disturbingly high percentage of cross-border transactions that appear to result in some form of fraud, we need to develop educational programs in every country – and by every trustmark program – to encourage consumers to investigate merchants before they make a purchase – whether or not those merchants are displaying a trustmark.



As an example, a consumer can not only view the BBB Trustmark on a company’s web site (as shown here on the Proctor and Gamble – a BBB Accredited Business’ home page), but can also use the BBB web site to search for reports on companies with which they might do business.

Here are two examples:

- In the first, a consumer is looking for a report on Toyota Motor Sales, U.S.A., headquartered in Torrence, California. Here the

The screenshot shows the BBB website interface. At the top, there is a navigation bar with 'LOG IN' and 'Contact Us | Find a BBB'. Below this is a header with the BBB logo and navigation links: 'For Consumers', 'For Businesses', 'For Charities and Donors', 'About Us', and 'News Center'. The main content area features a 'Request Quotes' button, a 'BBB Reliability Report for Toyota Motor Sales U.S.A., Inc.' with an 'AA' rating, and a 'TrustLink' section. The 'Complaint Experience' section is highlighted with a red box, showing a summary of customer complaints and responses. The 'Accreditation' section is also highlighted, stating the company has been accredited since 04/23/1996.

consumer can see that the company is a BBB Accredited Business, has an "AA" report status and can view the

complaint history for the company.

- By contrast, a consumer – even a consumer from another

The screenshot shows the BBB website interface for Direct American Marketers. It features the same navigation and header as the first example. The main content area shows a 'Request Quotes' button, a 'BBB Reliability Report for Direct American Marketers' with a 'D' rating, and a 'TrustLink' section. The 'Company Rating' section is highlighted with a red box, showing a 'D' rating and an explanation: 'Our opinion of what this rating means: We have enough concerns about this company (for example, their offer, customer complaints, advertising, etc.) that we recommend caution in doing business with it.' The 'Complaint Experience' section is also highlighted, showing a summary of customer complaints and responses. The 'Accreditation' section is highlighted, stating the company is not an accredited business.

country – can look up the record of Direct American Marketers – which uses many names, including "Prize

Administrators” – and discover that they are NOT BBB Accredited and that they have a BBB rating of “D” (our second lowest). They can also learn that we have many unanswered complaints on the company.

Next to finding ways to make this type of “name and shame” process more a universal part of trustmark programs, the single most important part is making sure that dispute resolution programs – which have been encouraged by GBDe, OECD and Consumers International (among others), exist in fact and not just on paper.

For that, ECOM and EC-Network are to be commended for developing a system that shows real promise as a way to link various trustmark programs – and their individual dispute resolution processes – together to handle cross-border consumer and small business disputes. Professor Hayakawa will discuss the ECC-Net for Consumer Disputes on E-commerce shortly. I can only tell you that BBB has worked with EC-Network over the past two years, handling consumer complaints between U.S. and Japanese consumers and businesses. I can tell you that – even without a technology platform to assist us – we have been able to help in resolving disputes between merchants in both countries. With technology – and the Consumer Advisory Liaison Office system Ms. Tonomura has explained – this can only improve.

So, yes, the job ahead is difficult and yes, our task has been made harder by consumers’ perceptions of whether – and how much – they can TRUST online commerce given what has happened in the global marketplace over the past year.

But online commerce has already revolutionized certain aspects of the marketplace – and our collaborative work seems to me a necessary part of the future of a truly vibrant cross-border online consumer marketplace.

Thank you for including BBB and me in this important conference.

## Endnotes

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<sup>1</sup> According to an article in [Wikipedia](#), the Economic Research Institute for ASEAN and East Asia (ERIA) is a policy think tank proposed by Japan arising out of the East Asia Summit. The ERIA has been described as an Asian Organization for Economic Cooperation and Development (OECD) for the 16 nations of the East Asia Summit. Those 16 nations are: Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, South Korea, Thailand, and Vietnam. The inaugural meeting of the ERIA was held on 3 June 2008 in Indonesia. Until its own administration is established, the ERIA will be located with the ASEAN secretariat.

This specific Working Group (WG-2) was assigned the task of exploring the establishment of a secure and safe e-commerce marketplace within the East Asian region. A second working group meeting was to be held in Singapore in February 2009.

<sup>2</sup> Source: [BBB/Gallup Trust in Business Index](#), September, 2007 and April, 2008.

<sup>3</sup> [E-Export Survey of BBBOnline Participants](#), April 2004, Section A, United States Participants, ©Council of Better Business Bureaus, Inc.

<sup>4</sup> U.S. Federal Trade Commission, for [econsumer.gov](#). First half 2007 statistics are [available online](#)

<sup>5</sup> United States and Canada omitted from the FTC/eConsumer.gov statistics for comparative purposes with BBB statistics (which excluded U.S. and Canada for this report).