Transaction Clarity and Its Influence on Friendly Fraud

A 2021 Business Wire Press Release revealed that for every friendly fraud case that goes uncontested, 50% of cardholders would commit this crime again in less than 60 days, equating to every accepted friendly fraud chargeback being valued at approximately 1.5 chargebacks. Given that fraud and dispute shops are already struggling to manage intake volumes, mitigating causes for unnecessary disputes is more important than ever. In this article, we explain the ins and outs of friendly fraud and how issuers can leverage Quavo's fraud management software to provide account holders with better transaction clarity to minimize losses due to friendly fraud chargebacks.

Explaining Friendly Fraud

Friendly fraud is often unintentional, but issuers who treat it as just an honest mistake expose themselves to fraudsters seeking to exploit the chargeback process and take advantage of issuers with lax friendly fraud practices. In a 2021 Chargebacks911 report, by 2023, 61% of chargebacks issued in North America will be friendly fraud. Friendly fraud occurs when a consumer makes a purchase with a debit or credit card and then disputes the charge with their issuing bank, regardless of whether there is a legitimate reason or not.

Most problems cardholders have with a purchase can be handled if they contact the merchant. Unfortunately, consumers are more likely to go directly to their issuing bank rather than the merchant when they have a transaction issue. According to an Invesp Report, 58% of cardholders do not contact the merchant and file the dispute directly with the bank. Avoiding merchant contact may seem more efficient to a cardholder, but fraud and dispute shops cannot keep up due to an overwhelming number of claims they receive.

Identifying friendly fraud is difficult due to limited data, outdated practices, and faulty and unreliable reason codes. Dispute investigators are expected to examine more data points than ever to determine if true fraud occurred when the cardholder reports the transaction. They can't keep up with the volume and types of complex attacks that are happening. Incidents of friendly fraud more than doubled between January and June of 2020, according to Chargebacks911. Between poor memory and the lack of essential merchant details on transaction records, friendly fraud has reached an all-time high.

According to a PaymentsJournal report, the overall increase in chargeback volume is overwhelming financial institutions as the estimated number of chargebacks in 2021 will hit over 600 million. Friendly fraud undermines actual fraud victims and costs both merchants and issuing institutions valuable resources and revenue. When a cardholder files a fraud dispute with their issuing bank, the institution will more often than not trust that the claim is legitimate fraud to ensure a better cardholder experience. Too often, front office staff classifies a merchant dispute as fraudulent to appease cardholders. Back-office workers frequently pay fraud cases that do not meet a rigorous burden of proof for denial. In addition, it takes a lot of research and evidence to deny a cardholder for friendly fraud, leaving issuers with a huge bill even if the customer is not committing friendly fraud. However, issuing banks can avoid many of the scenarios they face during friendly fraud claims.

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The Problem: Friendly fraud is on the rise and is causing issuers to spend more on resources regardless if true fraud has occurred.

Quavo Solution: Quavo Fraud and Disputes fraud management AI tool, ARIA™, was developed to help issuers focus on their core business and drive costs down significantly around the disputes process. ARIA is capable of integrating with any core processor or chargeback management software to provide issuers and their clients with consistent and compliant decisions. Investigations are completed in seconds to provide cardholders with a resolution in real-time, cutting out the lengthy call times and time spent on investigations. In cases where ARIA determines true fraud occurred and friendly fraud did not, she will recommend the dispute be paid and the amount taken to loss as a human investigator would. If no true fraud indicators are present, but many friendly fraud indicators are, ARIA will recommend the case be denied, and the cardholder reasserts their claim and provides more details.

Types of Friendly Fraud

There are four common causes of friendly fraud; malice, customer confusion, bad customer experience, and family fraud.

1. Malice

This type of fraud occurs when the cardholder makes purchases but intends to dispute the purchase later. These cardholders will claim that the product came damaged, the transaction was not approved, the item was never delivered, etc. Frequently, cardholders will state they were unable to contact the merchant or that the merchant refused to refund a purchase when in reality, they never attempted to contact the merchant.

2. Customer Confusion

Customer confusion takes place when a customer mistakenly believes fraud has occurred on their card. When cardholders do not recognize a transaction, their bank statement may not identify the merchant where it was made, also known as transaction clarity. Consumers turn to their issuing bank for assistance to resolve this case.

3. Bad Customer Experience

When consumers feel they received an item that did not meet certain expectations or didn't get what they paid for, they may be inclined to file for a chargeback without contacting the merchant. In some cases, cardholders have contacted the merchant, but the merchant refuses a refund, causing consumers to contact the issuer.

4. Family Fraud

This often occurs when a family member, usually a child of the cardholder, makes credit card purchases without the cardholder's knowledge. The ability to store payment information across accounts aids in the family fraud factor. Family fraud chargebacks may be handled differently per bank. Some issuing banks do not authorize any family fraud transactions, while some may handle each claim case-by-case.

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Transaction Clarity

In a recent interview with Ethoca's Jason Howard, he noted that consistent development in e-commerce and the unprecedented growth due to Covid-19 had marked a substantial shift in consumers from digital transactions over cash transactions. Issuers and merchants were preparing for this digital shift, but the growth rate was not expected, creating various challenges. In 2020, 1 in 5 consumers shopped online for the first time and experienced the lack of information provided through a transaction. Confused consumers reacted in a way they knew best, calling their banking institutions. Financial institutions have often served as a trusting resource to cardholders, and FIs were unprepared for this call overload leading to excessive call times. Banks were suddenly dealing with cardholders who experienced complaints regarding poor customer service and inadequate information on the merchant's end.

According to a 2020 Ethoca Report, providing more thorough and transparent transaction information on bank statements may lead to avoiding as many as 25% of friendly fraud disputes. Issuers who are not dedicating time to delivering more specific information to their cardholders will continue to experience the brunt of handling chargebacks. While those issuers who practice transaction clarity ultimately resolve disputes before the chargeback process begins by providing information that customers are unsure about. Chief Marketing & Product Officer at Ethoca, Keith Briscoe, reported: "Ethoca's collaboration with Aite on this critical research report validates what Ethoca has been hearing from card issuers and merchants for some time – that false claims from confusing or scant transaction information are creating a poor customer experience and driving up dispute processing costs." The best way to combat friendly fraud is through transparency. The ability to deliver more information to consumers impacts the entire ecosystem of fraud and disputes.

The Problem: Issuers are overwhelmed by the volume of disputes received due to customer confusion and lack of transaction clarity.

Quavo Solution: Quavo's Disputes as a Service™ offering integrates with merchant collaboration software such as Ethoca and Verifi to help in eliminating chargebacks such as friendly fraud. Our automated dispute management software, QFD™, works with financial institutions to clear up any misconstrued data or unclear information regarding transactions, focusing on further transaction clarity. As soon as a dispute is on file, the first step in QFD's recovery strategy is to work with merchant collaboration software to augment the transactional information provided to consumers and issuers.

Leveraging Fraud Management

For issuers, disputes are not a core part of their business, but they are a sizeable operational expense that can be avoided in many cases. A Business Wire report indicated that the handling cost to investigate and resolve disputes ranges from $20-25 per unit, exceeding $500 million. Quavo clients, on average, see a 50% reduction in operating costs over their current fraud and disputes process.

Quavo's innovative Disputes as a Service offering eliminates up to 90% of the manual work required to manage fraud and disputes through our automated software, AI technology, and human intelligence services. Quavo's Disputes as a Service offering features a pay-per-action pricing model, so issuers pay only for what they use. Quavo assures regulatory and network compliance with automatic product updates and continuous support by our experts. Employ Quavo's fraud and dispute management solutions to start automating for tomorrow, today.

To learn more about Quavo's fraud and dispute SaaS solutions, visit us online or email at experts@quavo.com.