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Navigating the Chargeback Triangle

How Collaboration Can Reduce Costs and Save Customer Relationships

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Webinar Speakers



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Agenda

Study
Methodology

Key Research
Findings

Order Insight

Conclusion

Study Methodology

Study Methodology

The Chargeback Triangle Study

Verifi commissioned Javelin Strategy & Research to conduct an independent research study on the perspectives of consumers, issuers, and merchants as they relate to chargebacks to uncover opportunities to refine the process, reduce costs and improve customer experience.

In support of this research, Javelin conducted an online survey in October 2017 of 2,000 U.S. consumers, 300 executives influencing chargeback policy at U.S. merchants earning \$10 million and greater in revenue, and 200 executives influencing chargeback policy at card-issuing U.S. retail financial institutions.

These findings are the result of that study:
The Chargeback Triangle.



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Key Research Findings

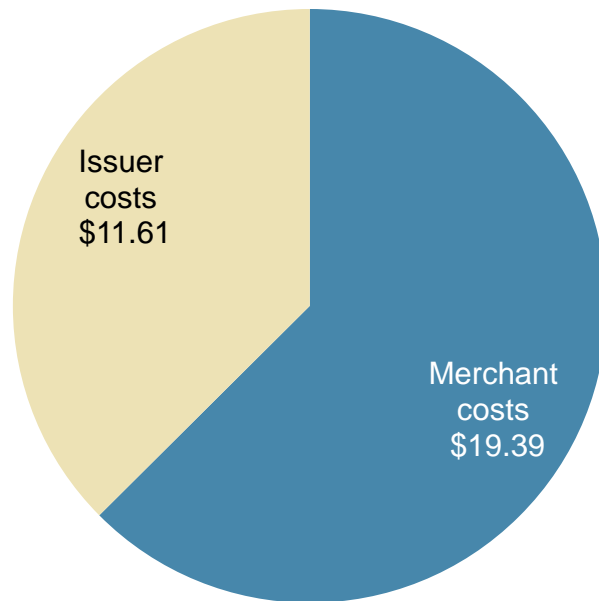
The Chargeback System is Inherently Flawed

Challenges and inefficiencies create a pathway to adverse consequences

- Arcane, complex rules and short deadlines
- Customers bypass merchants, creating complexity
- Pressure on issuers to avoid regulatory missteps
- Unnecessary customer frustration and costs

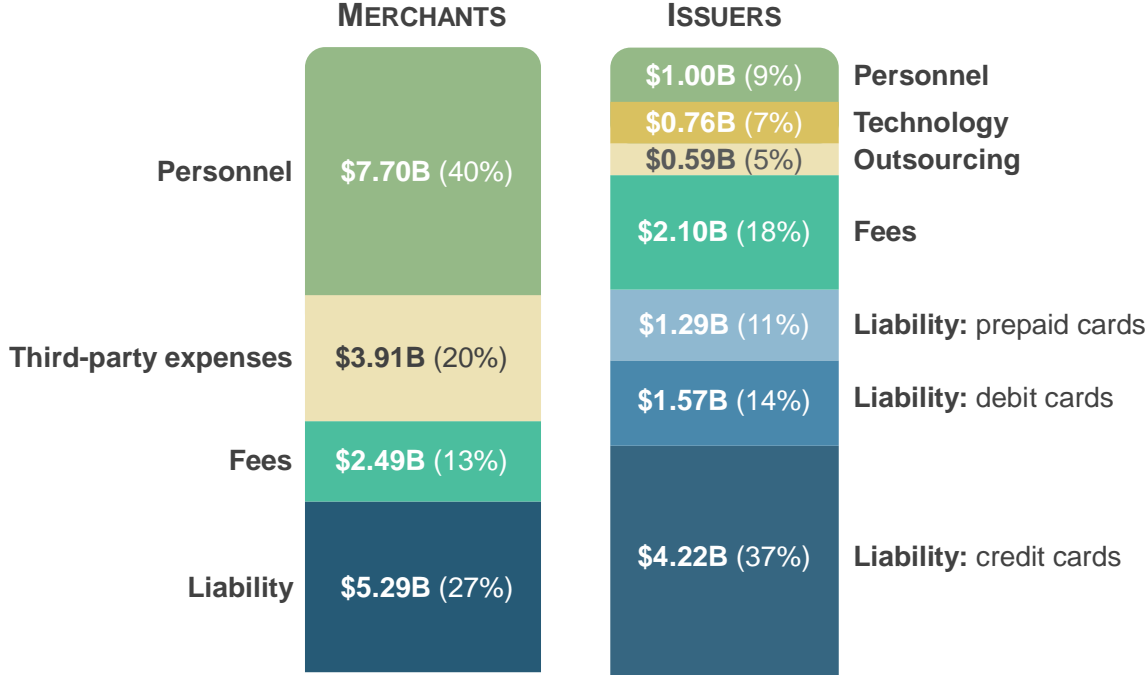
The Total Cost of Chargebacks is Massive (\$31 billion)

Total cost of chargebacks for merchants and issuers in billions



Merchants and Issuers Struggle with Different Chargeback Cost Drivers

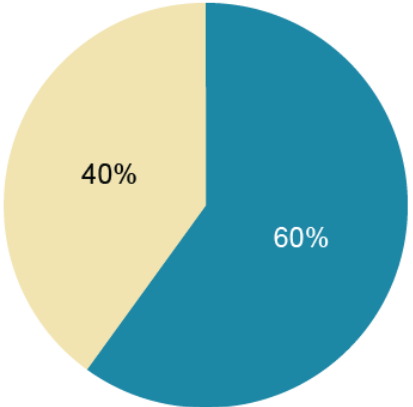
Breakdown of chargeback costs for merchants and issuers



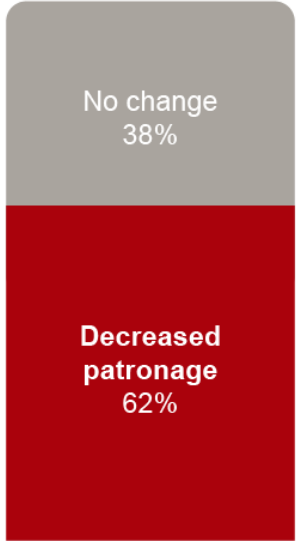
Chargebacks Undermine Patronage of a Merchant More Than Half the Time

Change in patronage of a merchant among those that track behavior

- Percentage of merchants that:
- Track customer purchasing behavior following chargeback
 - Do not track customer behavior following chargeback



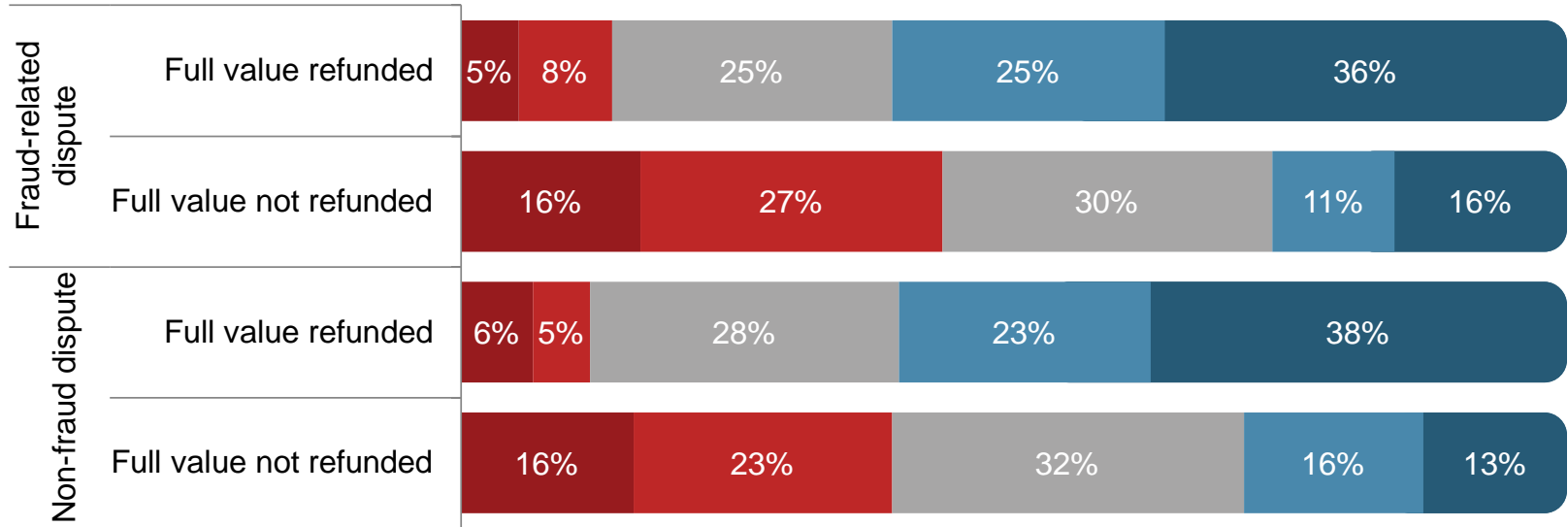
Change in customer purchase frequency following chargeback:



Failure to Receive Funds After a Dispute Undermines Top-of-Wallet for Issuers

Change in usage of a card after a dispute

■ Significant decrease in usage ■ Slight decrease ■ No change ■ Slight increase ■ Significant increase in usage



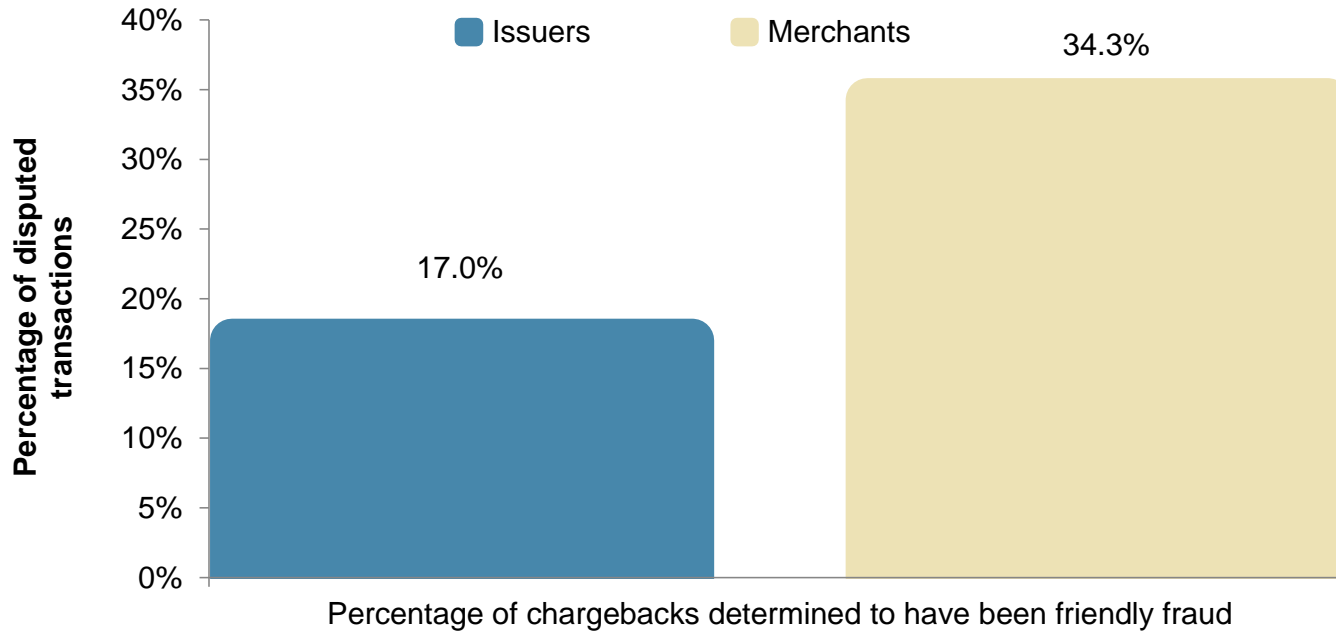
The Customer is Not Always Right?

Tackling the issue of friendly fraud

Merchants and issuers must balance the need to please their customers with minimizing the risk of “friendly fraud”: disputes fraudulently filed by the individual who made the purchase.

Issuers and Merchants View the Prevalence of Friendly Fraud Differently

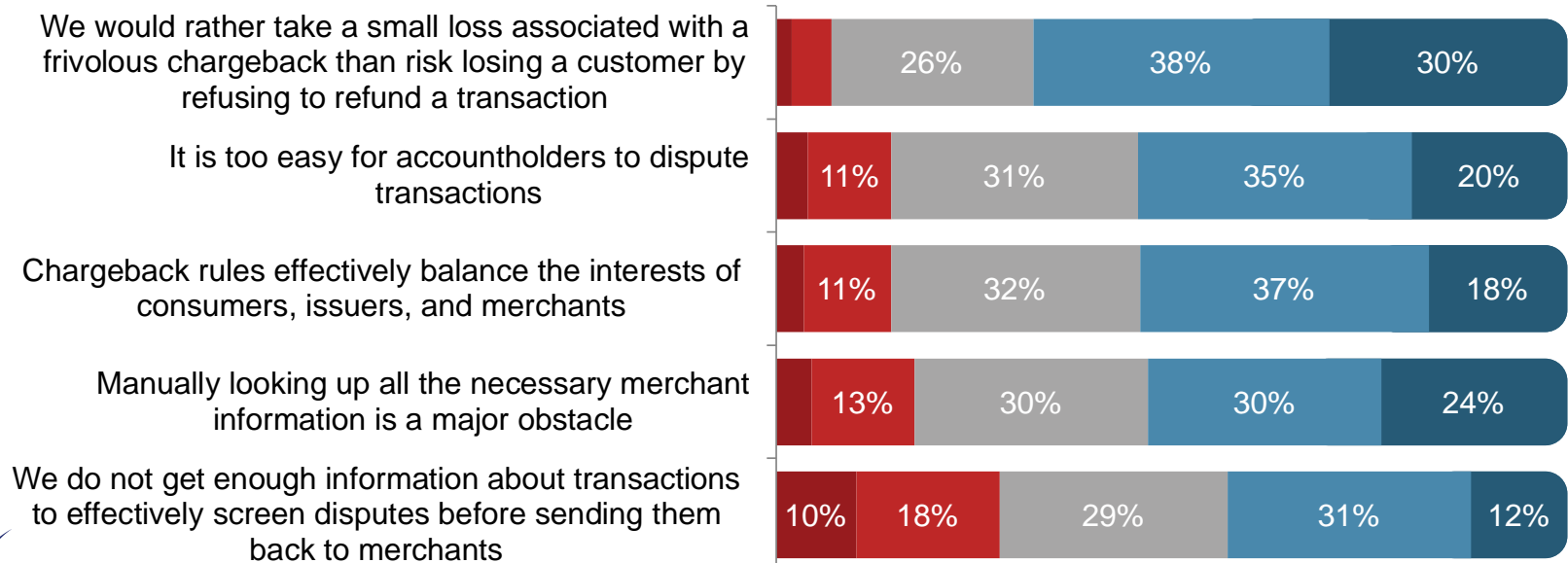
Prevalence of friendly fraud among issuers and merchants



Issuers Lean Towards Sustaining a Loss Than Contending with Other Challenges

Issuers' attitudes about chargebacks

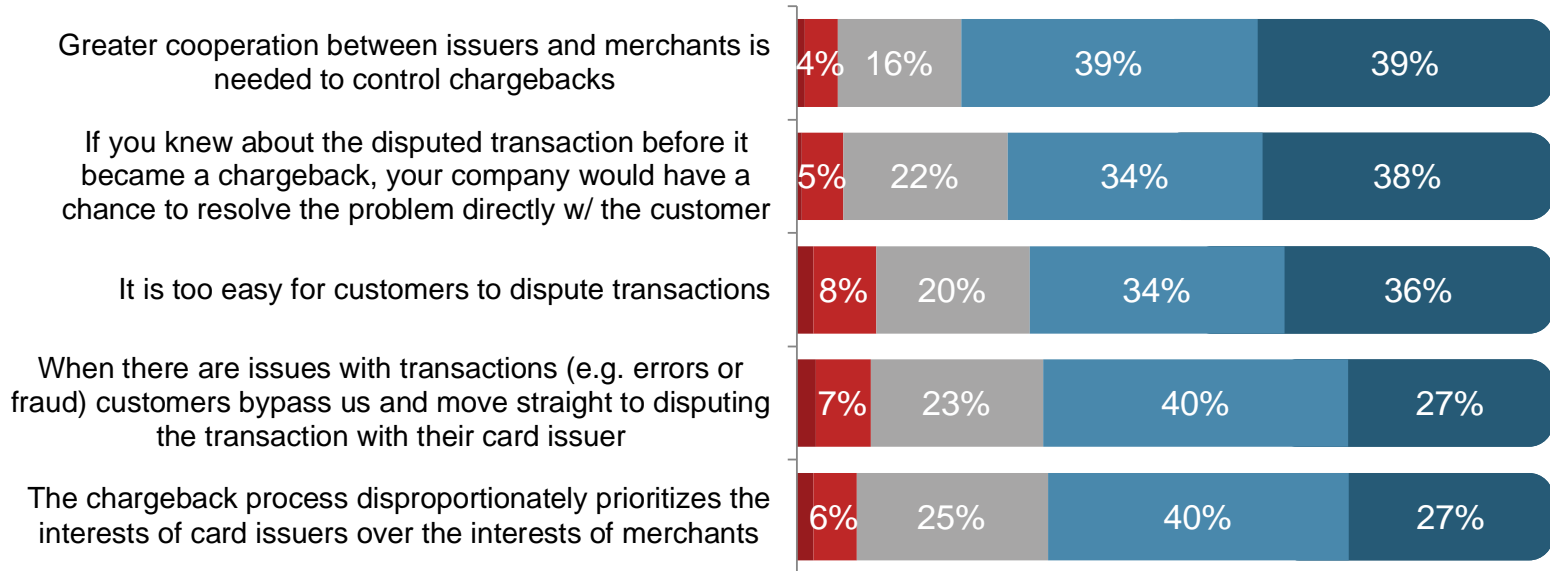
■ 1 - Strongly disagree ■ 2 ■ 3 ■ 4 ■ 5 - Strongly agree



Merchants Recognize the Benefit of Advanced Notice and Cooperation

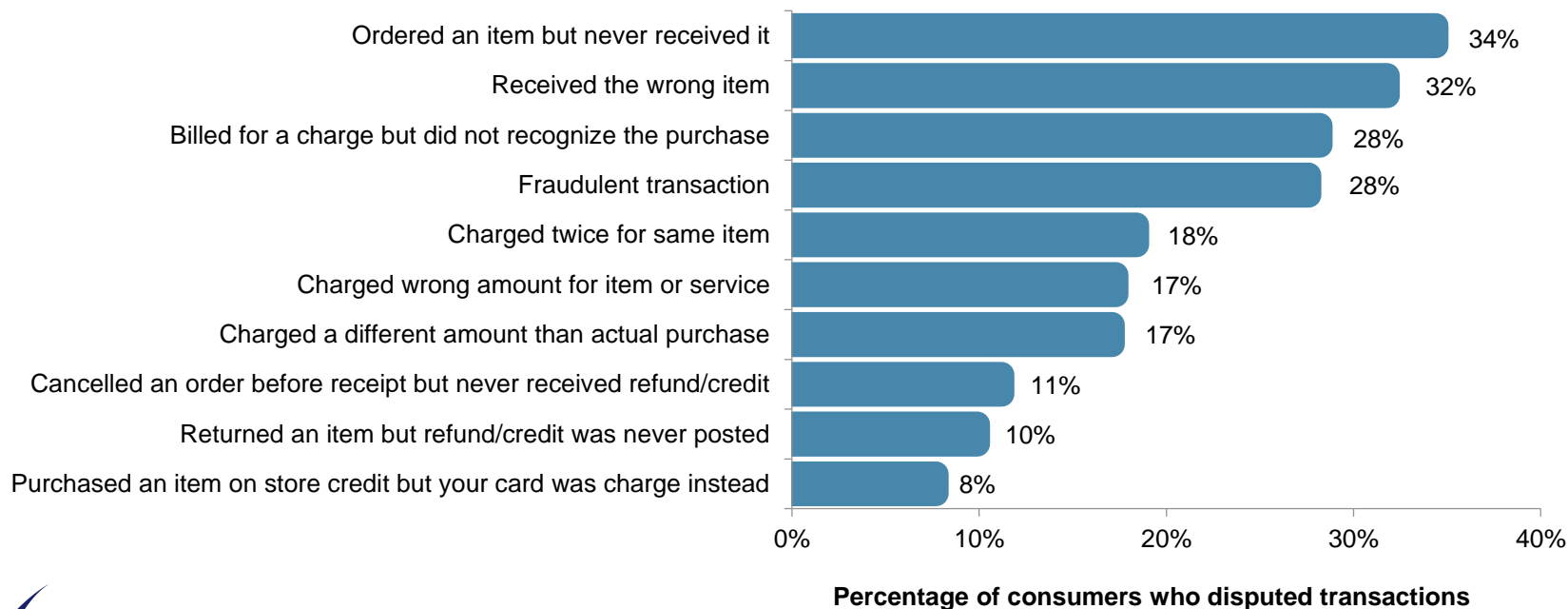
Merchants' attitudes about chargebacks

■ 1 - Strongly disagree ■ 2 ■ 3 - Neutral ■ 4 ■ 5 - Strongly agree



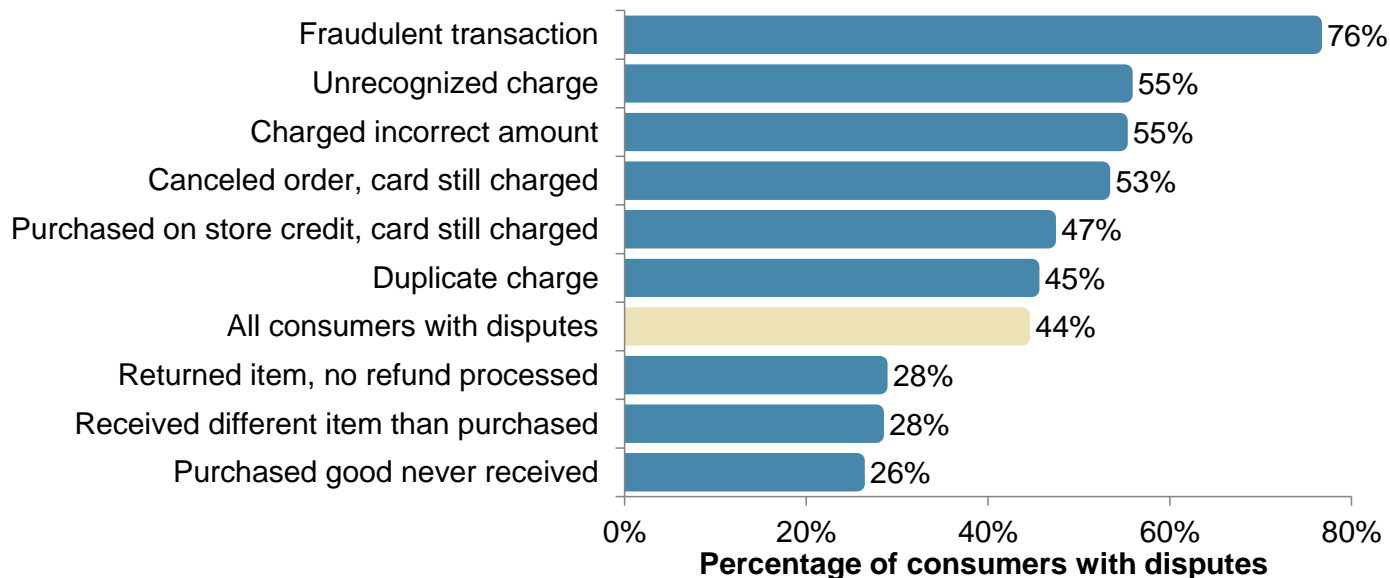
Disputes Best Addressed by the Merchant are Among the Most Prevalent

Most common types of dispute scenarios



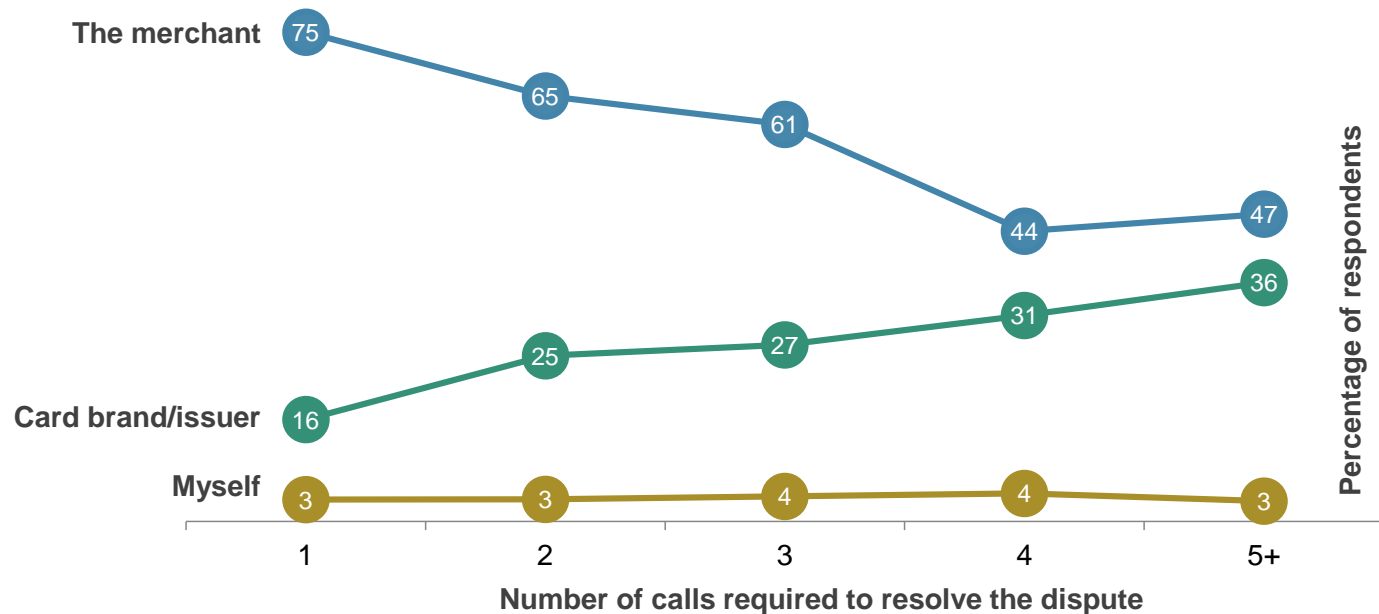
Consumers Often Bypass the Merchant, Even When They are Best Suited for Resolution

Percentage of customers with a dispute who bypassed the merchant



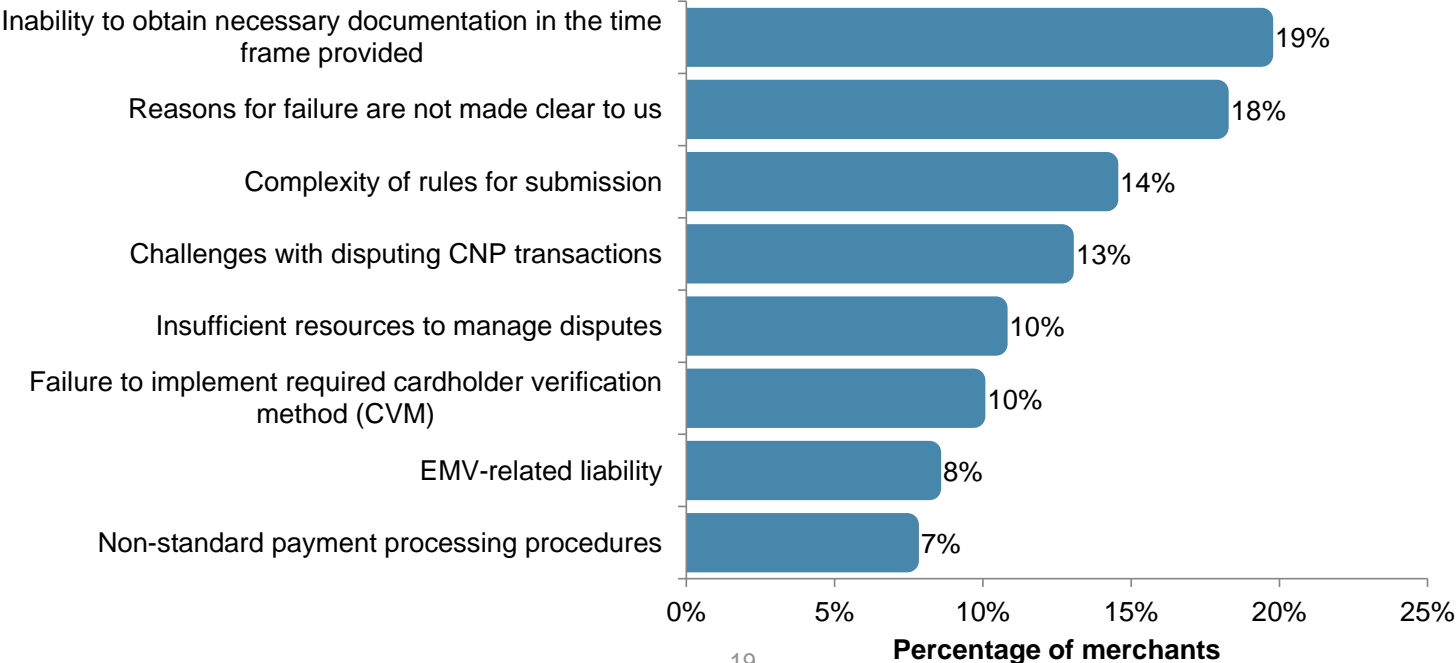
As the Resolution Lengthens, Issuers and Merchants Increasingly Share the Blame

Party believed to be responsible for a chargeback by number of resolution calls



Lack of Transparency and Unnecessary Complexity Burden Merchants

Most common reason for representation attempts failing



Verifi Merchant-Issuer Collaboration



Verifi's Global Platform

Merchant-Issuer Collaboration Solution

When consumers bypass the Merchant with a dispute, Issuers now are empowered to either:

Pause the dispute and direct the case to the Merchant for the opportunity to resolve the case with a refund

Access detailed order information to resolve billing confusion, identify friendly fraud, and deflect chargebacks

Merchant-Issuer Collaboration Solution

How It Works



Customer Self-Service

Issuer provides Customer greater clarity through expanded Order Details – on mobile app or online banking portal



Customer Communication

Customer is now offered multiple communication paths to resolve concerns about an order

- Contact Merchant directly
- Resolve with issuer



Issuer Support

- Direct the dispute to the Merchant for resolution
- Access full transaction details to review with Customer
- Validate legitimate sales
- Identify true fraud and non-fraud disputes
- Prevent chargebacks

Customer

Transaction dispute

Customer recognizes purchase – sale is validated

Customer disputes purchase – refund option offered

Issuer

Requests order details

Data reviewed with customer

Issuer acknowledges Merchant data – sale validated

Merchant

Request received

Purchase details and CRM data transmitted



Benefits for Merchants

- Identify chargeback risk and quickly resolve disputes
- Avoid false positives – stop over-refunding
- Prevent future chargebacks on recurring payments and subscription billing
- Customer self-resolution via Issuer digital channels
- Reduce Customer billing confusion
- Retain sales and increase profits
- Increase brand value and improve Customer loyalty



Benefits for Issuers



- Provide advanced notice of disputes to Merchants on authorized and settled transactions
- Cardholder self-resolution via Issuer digital channels
- Deflect disputes at inquiry, preventing chargebacks
- Identify friendly fraud and flag true fraud
- Reduce dispute volume and internal write-offs
- Improve Cardholder experience and brand equity



Closing Thoughts

- 1 Chargebacks were a \$31 billion problem in 2017.
- 2 Transaction disputes are common among consumers, but many could be resolved without a formal chargeback.
- 3 Greater information-sharing can help merchants and issuers know which disputes are worth pursuing, enabling both to move beyond simplistic heuristics to more effectively deploy their resources.

Additional Information or Questions?



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