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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

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Chargebacks Undermine Patronage of a Merchant More Than Half the Time

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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

Fraud-related dispute	Full value refunded	5% 8%	25%	25%	36%	
	Full value not refunded	16%	27%	30%	11%	16%
Non-fraud dispute	Full value refunded	6% 5%	28%	23%	38%	
	Full value not refunded	16%	23%	32%	16%	13%
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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

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Issuers Lean Towards Sustaining a Loss Than Contending with Other Challenges

Issuers' attitudes about chargebacks

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

We would rather take a small loss associated with a frivolous chargeback than risk losing a customer by refusing to refund a transaction

It is too easy for accountholders to dispute transactions

Chargeback rules effectively balance the interests of consumers, issuers, and merchants

Manually looking up all the necessary merchant information is a major obstacle

We do not get enough information about transactions to effectively screen disputes before sending them back to merchants

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Merchants Recognize the Benefit of Advanced Notice and Cooperation

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Merchants' attitudes about chargebacks

1 - Strongly disagree

Greater cooperation between issuers and merchants is needed to control chargebacks

If you knew about the disputed transaction before it became a chargeback, your company would have a chance to resolve the problem directly w/ the customer

It is too easy for customers to dispute transactions

When there are issues with transactions (e.g. errors or fraud) customers bypass us and move straight to disputing the transaction with their card issuer

The chargeback process disproportionately prioritizes the interests of card issuers over the interests of merchants

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Disputes Best Addressed by the Merchant are Among the Most Prevalent

Most common types of dispute scenarios



Billed for a charge but did not recognize the purchase Fraudulent transaction Charged twice for same item Charged wrong amount for item or service Charged a different amount than actual purchase Cancelled an order before receipt but never received refund/credit Returned an item but refund/credit was never posted Purchased an item on store credit but your card was charge instead

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Percentage of consumers who disputed transactions





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 representment 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

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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 nonfraud 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





Chargebacks were a \$31 billion problem in 2017.



Transaction disputes are common among consumers, but many could be resolved without a formal chargeback.



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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