
3 Ways E-Commerce Fraud and Disputes Chip Away at Revenue

And a Holistic Approach That Will Fix It



Chargeback



RETAIL DIVE

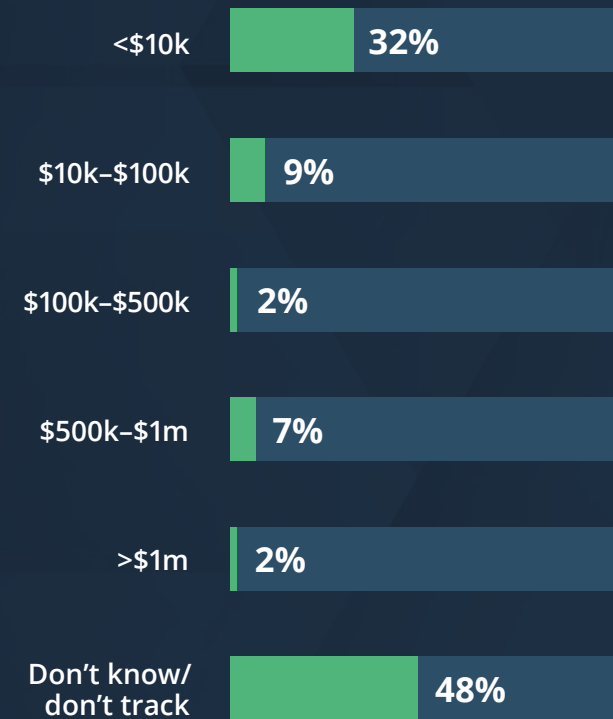
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Payment fraud and disputes are smoldering fires in online retail that until now have not put off enough smoke to get attention — there have always been more urgent problems to prioritize. But as the e-commerce retail revenue grows and the industry matures, retailers are carefully evaluating expenses and looking for opportunities to streamline expenses — and are increasingly delighted to realize just how much of their top-line revenue they reclaim when they optimize their fraud and dispute management process.

“Some companies can be lax about the cost of fraud, particularly startups who are typically more focused on growth, subscribers, and top-line revenue,” said Chris Francis, GM of E-comm Strategy. “But mature organizations realize that fraud directly hits the bottom line — when you get hit for a chargeback, that comes right out of your profit. Companies should focus on limiting fraud in a way that minimizes the impact on the overall customer experience.”

How much money did your company lose in 2019 to fraud and disputes?



Ramping up fraud filtering to prevent disputes is an option, but merchants do so at the expense of declining more good revenue.

Often retailers end up using good customer data to build a model for bad actors — undermining the integrity of their entire process for fraud and dispute management and driving up the costs associated with fraud.

Fortunately, new technology makes it possible to automate both front-end filters and dispute responses to make dispute management more holistic — and therefore more accurate and efficient. Retailers that take

a holistic approach find it's possible to put out those fires, increase sales and experience fewer incidents of fraud.

To explore how businesses today approach fraud and dispute management, Chargeback partnered with Retail Dive's Brand Studio to survey 122 retail executives. The results reveal just how important it is for retailers today to update their best practices with fraud and disputes to build a truly holistic response.

In this report, we'll look at **three important ways** feeding clean fraud and dispute data into your system can prevent fraud, capture accuracy at scale and improve the customer experience for retailers operating in today's competitive e-commerce environment.

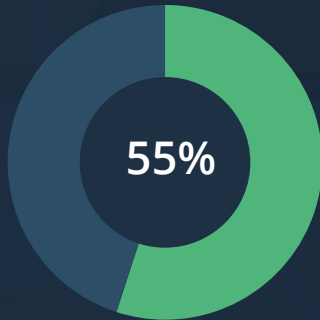
Limit Front-End Fraud Mistakes at the Risk of Losing Sales

Correcting Dispute-Response Mistakes at the Risk of Losing Revenue

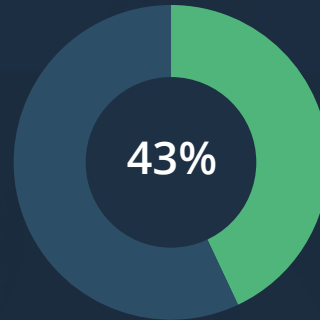
Today's
Balancing
Act

Fraud and Dispute Management At-A-Glance

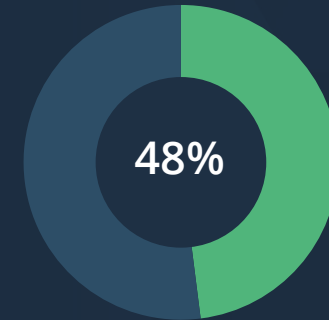
Among executives surveyed ...



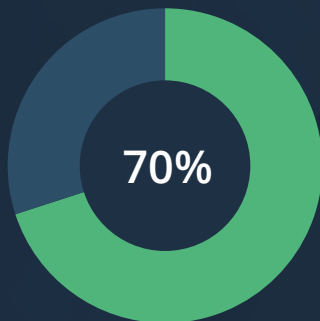
have an **in-house team** for fraud and dispute management.



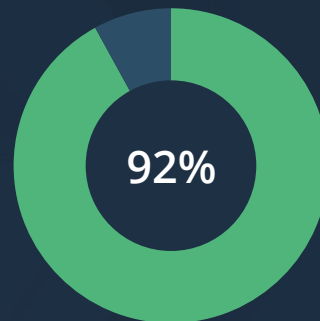
have a **fraud filter**.



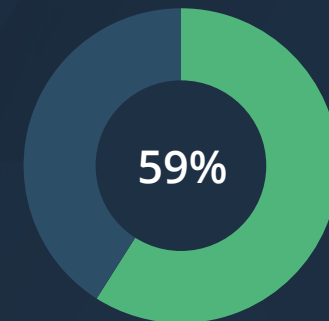
don't know or don't track how much money their company lost in 2019 to fraud and disputes.



are concerned with **true fraud**, compared with 30% who are concerned with friendly fraud.



think a **good dispute-management process** can have a positive effect on customer satisfaction.



plan to **implement or improve their company's fraud filter, dispute-management provider or platform, or both**.

1

Clean data reduces false positives and increases acceptance rates

In the e-commerce ecosystem, retailers must navigate three kinds of fraud: Friendly fraud, accidental fraud claims made by legitimate customers stemming from simple confusion or more complicating factors; chargeback fraud, the fraudulent use of chargeback rights by legitimate customers analogous to theft; and true fraud, an unauthorized purchase made by a 3rd party using a stolen payment card.¹

But what happens in so many e-commerce companies is that friendly fraud, chargeback fraud and true fraud are lumped into the same data, leaving retailers to score fraud data with contaminated information.

Friendly fraud

An error committed by a customer by accident.

Chargeback fraud

A transaction made by an individual with their own data but with an intent to defraud.

True fraud

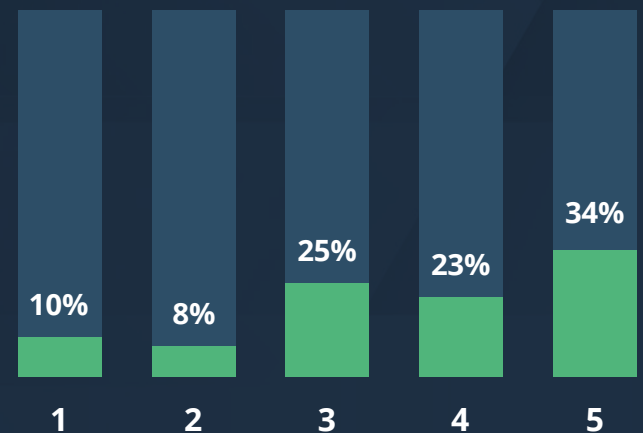
A transaction made with a lost or stolen credit card.

When technology empowers retailers to capture more granular details about their customers and share that data with the fraud model and fraud review teams, they can create more accurate models of fraud and dispute management. They feed only true cases of fraud back into the system, which helps prevent models that are more likely to generate false positives, where legitimate transactions are flagged as fraud. Over time, these models improve with more data, and good customers are no longer adversely affected by the bad behavior of a small percentage of customers.

“Improving the processes around both automated and manual dispute management is critical because reducing false positives increases legitimate sales,” said Jamon Whitehead, co-founder at Paladin Group, a fraud and dispute management consultancy. “As platforms continue to change and evolve to serve legitimate customers, retailers have to be proactive in identifying potential holes in those systems so they can react and plan accordingly. The organizations already adept at being flexible are the ones who will fare best when the unexpected happens.”

70% of retailers surveyed are concerned with true fraud, compared with 30% who are concerned with friendly fraud.

On a scale of 1 to 5, with 1 being low priority and 5 being high priority, how high a priority is fraud and dispute management in your business today?





2

Automated processes can better handle changes in scale

The COVID-19 pandemic has dramatically affected online retail, driving a spike of almost 50% in sales in April of 2020.² This is just the kind of sudden, unpredictable change retailers must be prepared to adjust to if they want to capture a competitive advantage in times of disruption. Because, as retailers accept larger numbers of card-not-present transactions, the number of disputes they're exposed to will also rise. It's critical that retailers have a process in place not just to manage these disputes but also to put them to work.

A holistic approach to fraud and dispute data means that each transaction improves the data and contributes more efficient fraud and dispute processes over time.

“A peak in e-commerce sales means more risk for merchants, especially as traditional brick-and-mortar retailers adapt to COVID-19 with curbside pickup and other card-not-present transactions,” said Scott Stone, chief strategy officer at Chargeback. “A holistic fraud and dispute management process is more and more important for retailers. Critical information must be leveraged to help invalidate accidental and fraudulent claims while continuously updating models with outcomes and learnings also takes place.”

As the sheer volume of disputes increases, retailers also must consider how operations and fulfillment play into the process. Automating as much as possible about the purchase, fulfillment and dispute process puts retailers in a better position to protect themselves from malicious chargeback fraud.

“Many online retailers have been hit hard during COVID-19, and many are scrambling to fulfill the huge ramp-up in orders,” Francis said. “In my view, the amount of fraud retailers have experienced has grown somewhat linearly, but what retailers actually need to worry about, in the short term, is managing the operations and fulfillment well enough to track products and disputes accurately.”



“Automatically identifying fraud, or “scoring,” has always been difficult. Fraud schemes change almost constantly, and **scoring thresholds are constantly being tested and upgraded.**”

Jamon Whitehead, co-founder at
Paladin Group

3

Better dispute management contributes to a better customer experience

“The customer experience imperative,” coined by McKinsey and Company, is one of the most important aspects of operating a successful e-commerce business today.³ As consumers increasingly move online, the digital experience becomes the primary experience they’ll have with a retailer. If something goes wrong with the payment experience of a legitimate customer — being incorrectly flagged for fraud, a long and drawn-out dispute process — it will profoundly affect the overall customer experience.

That’s why it’s so important for retailers to flag potential fraud accurately and avoid interrupting the purchase process for friendly customers. After all, the purpose of building a framework for holistic fraud and dispute management is not just to fulfill the legal requirements of a transaction. It’s to ensure the legitimate customers that want to do business with a retailer can do so quickly and conveniently.

“If retailers are filtering the wrong people out of the purchase process because of bad data, that is both a revenue problem and a customer experience problem,” said Stone. “When retailers invest so much in acquiring new customers, providing an engaging shopping experience and moving them through the checkout process, anything that adds friction to the customer shopping journey is a problem that needs to be addressed.”

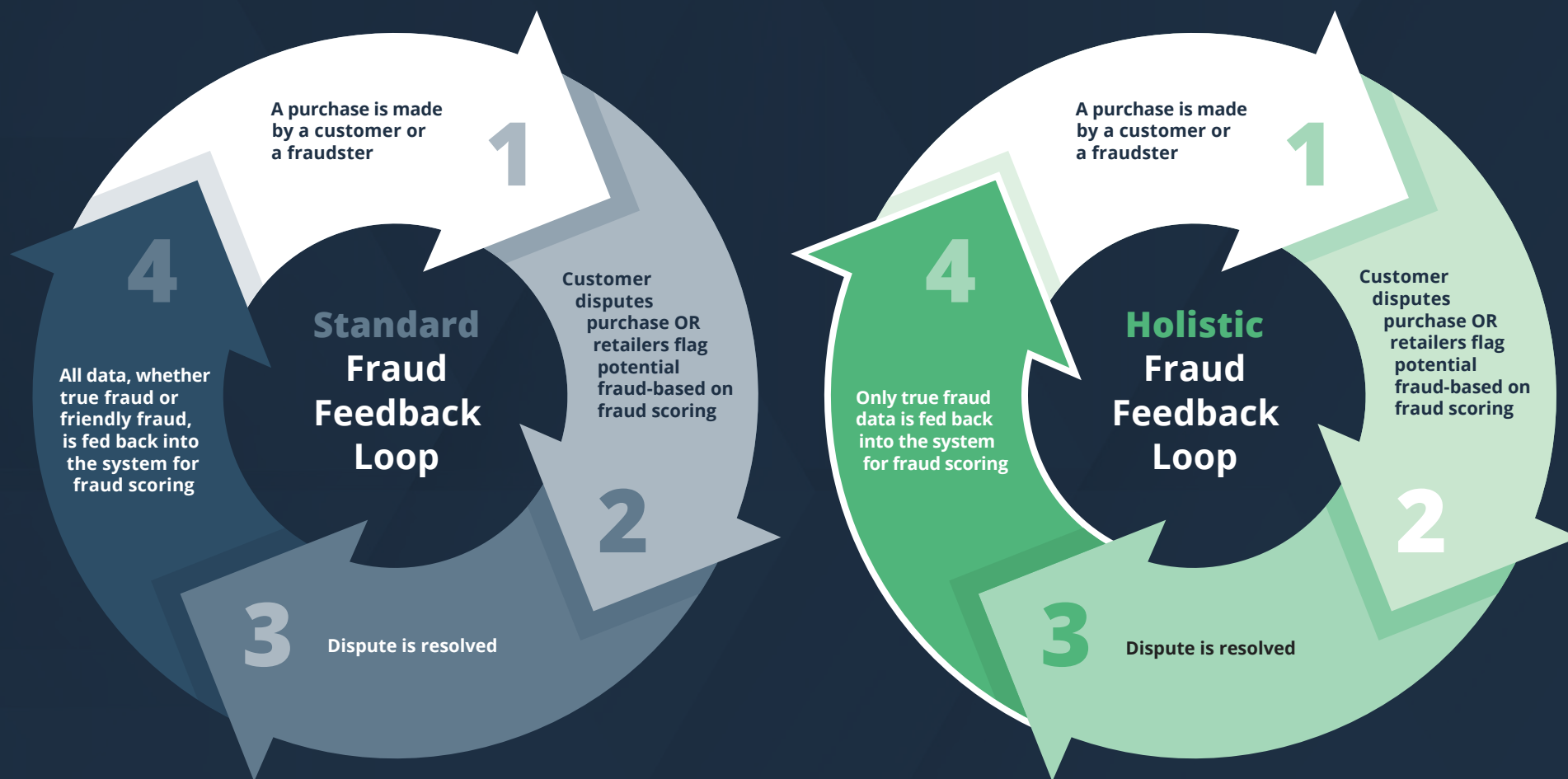
The experience doesn't end with a purchase. Post-transaction dispute management can play a critical role in customer experience, especially when a customer has a negative one. Tools like [Real-time Resolution](#) allow merchants to communicate to the cardholder's issuing bank before a dispute is submitted, turning the customer's bank into a new channel for customers to interact with merchants. This new channel is a powerful customer experience touchpoint that not only helps the cardholder invalidate a potential dispute but also helps the bank collaborate with the cardholder to deny the dispute request before ever filing it. Through this additional channel, merchants are able to reduce both accidental and fraudulent claims and elevate the customer experience.

92% of retailers surveyed think a good dispute-management process can have a positive effect on customer satisfaction.



“Before and After” Fraud Feedback Loop

Modern tools for fraud and dispute management allow you to implement API driven feedback loops across your vendor stack. The result is a rapid, automated feedback data share that scales with you as your transaction volume increases.





Feeding Your Fraud and Dispute Management Framework the Right Data

While many retailers approach the cost of fraud and disputes as a necessary expense of doing business, it actually represents a significant opportunity to optimize transactions and increase overall profitability; especially in today's e-commerce-heavy retail environment, where, if an organization can confidently accept more payments and quickly respond to invalid disputes, they can lift overall sales by a significant percentage and retain revenue.

A holistic approach to fraud and dispute management feeds the most accurate data into an automated and ever-improving framework, building accuracy and efficiency over time. This is the hallmark of businesses that want to sustain and grow their operations and deliver the best possible customer experience in the long term.

Sources

- 1 "Unmasking the Three Faces of Fraud," Chargeback, <https://chargeback.com/ebooks/the-three-faces-of-fraud/>.
- 2 "US e-commerce sales jump 49% in April, led by online grocery," TechCrunch, <https://techcrunch.com/2020/05/12/us-e-commerce-sales-jump-49-in-april-led-by-online-grocery/>.
- 3 "Adapting to the next normal in retail: The customer experience imperative," McKinsey and Company, <https://www.mckinsey.com/industries/retail/our-insights/adapting-to-the-next-normal-in-retail-the-customer-experience-imperative>





Based in Salt Lake City and founded in 2017, Chargeback is a software company redefining dispute management through an SaaS-based platform that helps businesses recover lost time and revenue while transforming any negative customer interaction into one that drives brand loyalty and increases acceptance rates. Chargeback is an enterprise-grade PCI DSS certified solution in use by more than 100 companies, including 6 of the Fortune 500.

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