



THE THREE

FACES OF FRAUD

UNCOVERING THE TRUE MOTIVES BEHIND DISPUTES



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INTRODUCTION

When it comes to disputes and chargebacks, many people think there are only two types of fraud that can occur: true fraud and friendly fraud. True fraud happens when you accept a lost or stolen credit card, and a dispute occurs. And if you're only considering two types, friendly fraud happens in every dispute where true fraud isn't the culprit.

Instead of only two kinds of fraud, it's essential to understand **fraud's three distinct faces**. True fraud disputes remain as expected, but the rest are broken into two categories: chargeback fraud and friendly fraud.

You've likely heard these terms used synonymously in discussions of disputes and chargebacks. And there are indeed many similarities between the two. Both types of fraud result in a dispute, both are winnable disputes for the merchant, and both will get through front-end fraud filters. After all, they are legitimate cardholders making the purchase. So, why do we think there needs to be a differentiation between the two? There are three reasons why merchants should look at these types of fraud as two different categories.

First, friendly fraudsters are simply confused about the transaction, and the dispute is the result of a misunderstanding. The dispute can be avoided entirely if the merchant can communicate with the friendly fraudster before they contact their issuing bank.

Second, chargeback fraudsters are using the dispute process to steal goods from the merchant. They are disputing out of malicious intent. If a cardholder commits chargeback fraud, they should be banned or blacklisted from your store and site.

Third, by understanding the context, motives, or stories behind disputes, you glean valuable information. Let's say, for example, that your company is receiving a lot of "credit not processed" chargebacks (meaning that the cardholder is saying that you did not refund them). But, you know you're refunding these cardholders when they return merchandise. After taking a closer look at your refund process, you see that it takes 6 to 8 days for the refund to hit the cardholder's account, but the cardholders are disputing on days 3 to 5. Now you can take the necessary steps to speed up refund time, or better communicate with customers about when they can expect their refund to hit their account.

Uncovering the true motives behind disputes allows your team to create strategies that will lower your dispute rate and, in turn, protect your hard-earned revenue. This ebook will explain the situations and motives responsible for chargeback fraud, friendly fraud, and true fraud. Plus, we'll give tips on how to prevent each kind.



CHARGEBACK FRAUD

Chargeback fraud involves a cardholder maliciously taking advantage of their chargeback rights to get their money back, usually while retaining the goods or services originally purchased.

Chargeback fraud is the fraudulent request for a return or refund in the form of a chargeback. The cardholder disputes the transaction in an attempt to regain the dollar amount while retaining the product or services rendered. In other words, chargeback fraud is when a cardholder makes a legitimate purchase, then decides to dispute the charge.



**Chargeback fraud
accounts for 35% of all
fraud losses.**



CHARGEBACK FRAUD



Meet Fraudster Fred

See what made this customer transform from enthusiastic golfer to chargeback fraudster.

After months of online research and talks in the pro shop, Fred is finally ready to buy a new set of golf clubs. His current set is a hodgepodge of hand-me-downs and second-hand store finds, so he's expecting this new set to cut at least a few strokes from his score. Fred leaves the shop with a spring in his step and drives straight to the course to try them out.

By the fourth hole, Fred had already lost eight balls. His slice was worse than ever. By the end of the round, Fred had bent his seven iron and tossed his sand wedge into the woods. He couldn't believe that these brand new, state of the art clubs were making his game worse. Buyer's remorse hit him hard, but he couldn't return them now. There was no way the store, even with its excellent return policy, would accept the return of an incomplete, bent up set of clubs.

Fred disputes the charge with his issuing bank claiming that the purchase was a fraudulent charge. The hassle of getting a new credit card was worth it if it meant getting his money back for the clubs. He would claim he lost his wallet.

When the sporting goods store receives Fred's dispute, they're determined to create the best chargeback response possible because of the considerable transaction value it represents. While gathering compelling evidence, they decided to check all the potential sources and scroll through Fred's public social media posts. It didn't take too long to find a photo posted on the transaction date of the golf clubs with the caption, "Can't wait to kill it on the course with these."

The social media screenshot served as a sort of "cherry on top" of the store's already strong response document. And the issuing bank assessed the dispute response, the sporting goods store and Fred got the news that the chargeback was indeed invalid, and the store would get their revenue back.



CHARGEBACK FRAUD

How to Prevent Chargeback Fraud

Fraudster Fred's situation is just one of many scenarios where chargeback fraud can happen. Other scenarios can include buyer's remorse, emergency expenses, overspending, lack of customer service and unclear or strict return policies. Situations like this give fraudsters a motive to abuse the chargeback process. But with the right evidence, you can recover revenue loss associated with chargeback fraud.

What's better than winning a dispute? Preventing the dispute from ever happening. Here are a few tips to stop chargeback fraud:

Customer service is key. If a customer has a problem, complaint, or question about the product, having great customer service will help resolve the issue before it ever becomes a dispute. When a problem goes unanswered or unresolved, customers may turn to disputing the charge. Having your customer service information accessible and easy to find can help customers contact you before thinking of disputing.

Have clear and flexible return policies. Let your customer know exactly what your return policy is and how they can go about returning merchandise that doesn't work for them. By having a more flexible return policy, customers will have more of an incentive to work with you while resolving the product return. Which is a much better scenario than customers using disputes as a way to receive a refund.

Be prepared with evidence. Remember, these customers used their own card and authorized the purchase, so you should already be collecting the compelling evidence needed to win the dispute. But first, you need to take a look at the reason codes and the specific evidence the card network requires. Are you collecting all of the required evidence during the check out process? Check within your payment processor, payment gateway, and ecommerce platform to ensure these sources are collecting all required evidence.

Also, make sure you are checking all the possible sources for evidence. There are reason codes that ask for information that can't be found in your payment processor or gateway. For example, American Express Reason Code F29 asks for you to provide compelling evidence that can include "screenshots from your customer's social media with products from the order pictured, or displaying works created using your product or service; [or] links to or screenshots from eBay or Craigslist showing the product listed for sale by the customer."



FRIENDLY FRAUD

Friendly fraud involves a cardholder who disputes a purchase out of confusion or misunderstanding, even though they authorized the transaction.

Friendly fraud is an innocent act that costs merchants greatly. While it is closely related to chargeback fraud, friendly fraud involves no malicious intent from the cardholder. Forgetfulness, family members making unknown purchases, or unclear merchant descriptors can all be mistaken as “unrecognizable,” “unauthorized,” or “fraudulent” transactions.



Friendly fraud accounts for 35% of all fraud losses.



FRIENDLY FRAUD



Meet Confused Collin

Here's how an unclear merchant descriptor and some forgetfulness can create a friendly fraudster.

While looking over his credit card statement, Collin notices a charge from Microsoft for \$50. Collin started racking his brain, trying to think of what he bought. "This doesn't make sense," Collin thought, "we are a Mac family. We don't own anything that would even be compatible with Microsoft products."

Just to be sure he wasn't missing something, Collin called his wife to ask her if she bought anything from Microsoft. She said that she has no idea where the charge came from. So Collin started the dispute process, thinking this is clearly a fraudulent charge. With just a few clicks on his issuer's website, he disputes the charge.

Microsoft receives the chargeback from Collin. This means they lose the revenue from the transaction and get hit with a chargeback fee. Even if they have all the evidence to win the dispute and prove that Collin made the purchase, Microsoft would still have to pay the chargeback fee. The process of gathering all the information and data together to prove that Collin authorized the purchase, then submit the evidence, is a lot of hassle on the merchant's end to correct a customer's confusion. Still, Microsoft puts together their response with all the compelling evidence needed.

Shortly after Microsoft's submission, Collin gets the news from his issuing bank that he has lost the dispute. He can't believe he has lost because there is no way he made that charge to Microsoft. Collin then told his wife about the dispute over dinner. And after rationing a few conspiracies as to how the "fraudulent" transaction occurred, his thirteen-year-old son realized what happened. The Microsoft charge was actually for an Xbox game that he had asked for permission to buy.

Now everything made sense. Collin told his son that he could buy the newest NBA 2K game and use the credit card that was saved on the Xbox account. With slight embarrassment, Collin realized he made a mistake for filing a dispute. Xbox games were purchased on the Microsoft Store which explains the "Microsoft" merchant descriptor.



FRIENDLY FRAUD

A New Way for Merchants to Take Control

With Real-time Resolution (RTR) from Chargeback, this friendly fraud situation goes a lot differently. RTR stops disputes before they become chargebacks by providing issuers and cardholders with real-time order, usage, and delivery data.

When Collin contacts his issuing bank, he will receive all the information about the transaction via RTR. The issuing bank will be able to instantly see customer and order data tied to the transaction in question. They'll relay to Collin that the Microsoft charge was a purchase made for the Xbox game, "NBA 2K18" under the username "cole5433". Everything about the transaction, and how his son, Cole, asked for permission to buy the game, will start to click in Collin's mind. He just forgot that Xbox purchases go through the Microsoft Store.

Two things will transpire after Collin receives this information. One is that Collin will see that it was a legitimate transaction, and there are recognizable details that prove it. Another is that the issuing analyst will see a valid transaction took place. There would be no merit if Collin still tried to dispute the charge, so no dispute will be filed. And just like that, under the RTR scenario, Microsoft prevented an invalid dispute without ever receiving a chargeback.



FRIENDLY FRAUD

How to Prevent Friendly Fraud

We're all human, and we all make mistakes. Unfortunately, friendly fraud is a mistake made by your customers that will cost your company. Friendly fraud disputes are winnable, but you still want to prevent these disputes from happening. Because even if you win a dispute, it still counts towards your dispute ratio—which the card networks are monitoring continuously to see if it reaches 1%.

It is best to take measures in preventing friendly fraud altogether. That being said, here are a few tips to prevent friendly fraud:

Have clear merchant descriptors. The customer might review their credit card statement weeks after they made the purchase. So, they will need a clear reminder of what they bought. Make sure you're displaying a recognizable company name (instead of a legal company name) in your merchant descriptor. Particularly if it differs from what a customer will recognize. Also, include a way for cardholders to communicate with you. If a customer doesn't recognize a transaction, they will initiate a dispute if they can't immediately figure out how to contact the merchant. But, if it is just as easy to call a customer service number or head to a website indicated in your merchant descriptor, they will likely do that first, giving you a chance to sort out the issue before a chargeback happens.

Respond to every dispute. By just looking at the fraud reason code that came in with Confused Collin's dispute, Microsoft may have accepted that it was a true fraudster that stole Collin's card and made the purchase. Doing so would have resulted in a loss of revenue for a legitimate purchase. By responding to all disputes with the correct compelling evidence, companies can prove that the customer actually made the purchase in question.

Send emails. Email confirmations and reminders can be a great tool to prevent friendly fraud borne from confusion. For ecommerce merchants, emailing purchase confirmations helps cardholders not only remember a recent purchase but also in potential searches should an unrecognized charge appear on their statement. For in-store purchases, offering to email the receipt sends a digital reminder to your customer's inbox that will be available long after the physical receipt is lost or thrown away.

Overall, try to make it easy for your customer to remember what they bought or to contact your customer service when they don't recognize a charge.



TRUE FRAUD

True fraud involves a purchase made with a lost or stolen credit card, which is then disputed by the real cardholder.

True fraud is the reason the chargeback process exists. It is a hassle for both merchants and cardholders alike. True fraud, also known as identity theft, begins with an acceptance of a stolen card. The fraudulent purchase is disputed by an actual cardholder. As a result, the card account will be closed, and a new account number and card will be issued to the true cardholder.



True fraud accounts for 30% of all fraud losses.



TRUE FRAUD



Meet Triangle Fraud Tami

Here's a case of triangle fraud that's harmful to both the merchant and the cardholder.

Retail Riley Gets a Dispute

Retail Riley owns a trendy shoe store that recently landed a size run of super-limited edition shoes. Even with a higher-than-average price tag, he still sold out of every size. But Riley's excitement dampened when he received a dispute for a purchase of the limited edition shoes that the customer claimed was fraudulent. Riley's first thought was that the dispute must be someone trying to rip him off by committing chargeback fraud to get the sneakers for free.

As Riley took a closer look at the transaction details, something wasn't adding up. The customer's name, "Shopper Samantha," matched his records, along with her email address, physical address, and phone number. But the name on the card was "Innocent Isaac." Also, the IP address showed the transaction was made in a completely different state from where the shoes were shipped.

Shopper Samantha Finds a Deal

Shopper Samantha couldn't believe the deal she got. As soon as she saw the pair of limited edition sneakers on Retail Riley's website, she instantly fell in love. Then she saw the price—way more than she was ever willing to pay for shoes. Curious to see if she could find a better deal, Samantha started looking around different websites. She eventually came across an eBay listing for the shoes in her exact size—and for half the price.

She skimmed through the seller's reviews and saw very positive comments from past customers. The reviews said they got the exact pair of shoes they were expecting. Samantha decided to ignore the old saying "if it sounds too good to be true then it probably is" and bought the shoes.

Innocent Isaac Gets a Random Charge

Innocent Isaac has no idea where this charge came from. He received the notification of a purchase for some very expensive shoes from Riley's store. Isaac is not a shoe lover

and would never spend that much money at a shoe store.

“There is only one thing that could have happened. Someone got a hold of my card and went on a shopping spree,” Isaac thought. He contacted his issuing bank and told them that he had no idea where the charge came from. The bank assured Isaac they would start the dispute process and would send him a new card immediately.

Triangle Fraud Tami

Triangle Fraud Tami’s specialty is a triangle fraud scam, and she has the process down to a science. She is behind Samantha’s glee, as well as Isaac’s and Riley’s confusion.

Tami put a listing on eBay for limited edition sneakers cheaper than any other store. Samantha purchases the shoes at the lower price. Then, Tami takes a random card number she purchased off the dark web (in this case, Isaac’s card) and purchases the shoes directly from Riley. Tami gives Riley all of Samantha’s information so the shoes will get shipped straight to Samantha.

In the end:

- Isaac’s credit card is charged for the full price of the shoes
- Samantha gets sent the shoes from Riley
- Riley gets a fraud dispute
- Tami walks away with the money Samantha paid her through eBay

Samantha receives the limited edition shoes in perfect condition. Tami is a happy fraudster because another one of her triangle schemes worked out, and she walks away with her eBay profit.

Unfortunately, the transaction was true fraud. The customer has to go through the hassle of getting a new card and waiting for the money to get returned to their account. While merchants lose the merchandise, the revenue, and get hit with a chargeback fee.



TRUE FRAUD

How to Prevent True Fraud

Tami's triangle fraud is true fraud, meaning Isaac did not authorize the fraudulent charge on his credit card. He has every right to file a dispute, and he will win. As a merchant, this may sound discouraging. Retail Riley needs to put fraud filters in place to stop a fraudulent transaction from being completed. Fraud filters such as Feedzai, Sift Science, and Decision Manager are companies that provide these fraud filters.

The filters are based on the customer information, transaction details, and your company or product type. The filter's purpose is to block fraudulent transactions from ever being processed, but let the good and safe transactions through.

There were a couple of red flags for the transaction that was in the example above. Those red flags would be caught by fraud filters and would have prevented Isaac's card from ever being charged and Riley from ever receiving the dispute.

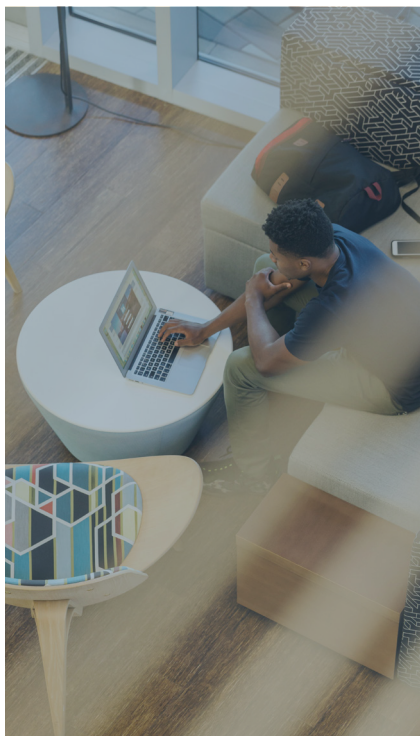


CONCLUSION

Putting it All Together

By recognizing the three faces of fraud, you're prepared to rectify profitable customer relationships and terminate risky ones. Without the distinction between friendly fraud and chargeback fraud, you're putting potentially valuable customer relationships in danger.

With a combination of front end fraud filters and post-transaction dispute management, your company will be in the best position possible to lower your dispute ratio, increase win rates, and save time. Both chargeback fraud and friendly fraud are winnable disputes. If the merchant submits a compelling response with the correct evidence, the merchant will regain their revenue.



Empower Your Team to Reveal Every Type of Fraud

We built the Chargeback App to empower the internal fraud teams with the most effective and efficient way to manage disputes. Our App automates the tedious task of creating a response by leveraging APIs and guided workflows informed by over a decade of experience managing disputes. The App also actively prevents friendly fraud with Real-time Resolution.

GET A DEMO & ROI ANALYSIS