Why “Everyone Wins” When Issuers and Merchants Collaborate

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Electronic payments continue to rise – consumer credit and debit card transactions are slated to reach 213 billion in volume this year – and payment disputes are increasing in volume too.[1] Last year marked the first where digital payment volume eclipsed paper-based payment methods.[2] Digital popularity will continue to grow and market forces will have significant impact on this growth – as well as the growth of CNP fraud and chargebacks.

Issuers and merchants face increased pressures from these market forces all of which have a trickle down effect that eventually reaches the consumer in the form of increased prices. As increasing regulations squeeze the margins of Issuers, the increased cost is passed down to merchants, who in turn, have no choice but to pass the cost to consumers. Chargeback disputes are a costly process for Issuers that merchants too. This paper outlines the gravity of the chargeback problem, the causes and impacts and provides a solution that can benefit the overall payments ecosystem as a whole.

The current payments climate is being influenced by a number of factors, including EMV. EMV’s goal is to eliminate counterfeit fraud in card-present transactions through the use of Chip and PIN cards that cannot be reproduced. Markets abroad have already seen these projections come to fruition — the percentage of total Chip and PIN disputes is about 0.01%, significantly lower than mag-stripe transactions at 0.1%.[3] As the EMV liability shift takes place in the U.S. in October, analysts predict that card-present fraud will decline. However, they also predict that fraud will migrate and spike in card-not-present channels (CNP), with CNP fraud skyrocketing to $6.3 billion by 2018.[4]

EMV is just the tip of the iceberg. Increased regulations on banking and payments and additional focus on consumer protection have given consumers increased ability to actively dispute payments. Essentially, consumers have free reign to dispute charges with almost no consequence, while Issuers and Processors must comply with new oversight through processes outlined by several agencies like the Consumer Financial Protection Bureau (CFPB) and the Payment Network Association (PNA). These pressures include PNA guidelines that frequently change, complex documentation and the need to meet Regulation Z (Truth in Lending Act). As the volume of chargebacks continues to grow, accommodating these dynamic standards and regulations becomes burdensome and costly for Issuers.[5]

In the interest of customer retention, it's common for Issuers to audit 10 to 15 % of all disputes and chargeback resolutions – a large investment of time and resources that does not guarantee that the remaining 85 to 90% of dispute resolutions didn't violate regulations.[6]

In the interest of customer retention, Issuers are inclined to adopt a "customer is presumed right" and "zero liability" mindset. Many issuers give customers temporary credits to their account in response to disputes, essentially freeing them from the responsibility of paying for the good or service. This process adds both cost and risk to the entire payments ecosystem.

The Fair Credit Billing Act empowers consumers to question unauthorized charges or billing errors, or transactions for goods/services that were never delivered or were not delivered in proper condition.[7] There are several contributing factors to the increased instances of consumer disputes, which are outlined below.

ONLINE BANKING INCREASES EASE OF USE

Online and mobile banking has risen in popularity among consumers in the past few years. Advances in web and mobile technology have improved the usability of mobile banking sites and apps. These advancements have made it easy for consumers to access account information and make payments online quickly and easily and – unfortunately – this ease of use has extended to creating disputes as well. Now, with just the click of a mouse or the tap of a key, consumers can raise a dispute in seconds.[8]

ACTUAL FRAUD-RELATED CHARGEBACKS

MasterCard reports that more than 70% – the majority of chargebacks - are processed with fraud reason codes. The ease of use of online payments has attracted consumers and fraudsters, the latter of which can be highly sophisticated when it comes to exploiting vulnerabilities on the channel. This is a problem that will continue to grow as EMV rolls out and fraud is pushed – and escalates – on the online channel.[9]

MOBILE PAYMENTS

M-commerce will grow substantially in the coming years. The growing popularity of mobile wallets like Google Wallet, PayPal Mobile and Apple Pay is significant in m-commerce, prompting merchants to consider supporting NFC-enabled payment terminals as many upgrade in advance of the EMV migration. Mobile wallets are increasingly gaining traction and this emerging payment technology may present new reasons and opportunities for consumers to dispute transactions.[10]

INCREASING CARD TRANSACTION VOLUMES

Organic growth of credit card transactions continues, with volumes rising 6-10% every year. As the number of traditional credit, debit and contactless payments rises, dispute volumes are expected to follow suit.[11]

HOW DISPUTES IMPACT THE PAYMENTS ECOSYSTEM

Disputes affect the entire ecosystem. As new rules aim to protect cardholders with stricter regulations, Issuers face increased pressure on margins. The financial impacts of these regulations result in increased costs to merchants, as banks tend to favor consumers when it comes to disputes, resulting in increased fines, fees and penalties for merchants who are left to manage costly chargebacks. Once a merchant's chargeback ratio reaches 1% or higher for sequential months, they risk losing processing privileges altogether. Consumers are not immune – they pay via the increased cost of goods and services as merchants try to recover lost profits.

Impact of Disputes on Issuers

Financial Institutions (FIs) face pressure from consumer protection and regulatory agencies, increasing both risk and costs. Federal regulations and Association guidelines are constantly evolving, making compliance a daunting task with expensive penalties. Many Issuers process disputes manually, an inefficient, error-prone, time-consuming and resource-draining burden that significantly impacts bottom line. Dispute processes today lack standardization across the payments industry. Current processes are dependent on commerce channel, liability shifts, risk exposure, and operating regulations. These processes are further fragmented across card, ACH, and alternative payment providers. These factors result in increased complexity, operational costs, and fragmentation of dispute resolution outcomes leading to inconsistent customer experience.

COST OF COMPLIANCE – Dozens of chargeback reason codes complicate the management process and make compliance with regulatory rules difficult. The MasterCard Chargeback Guide is over 500 pages long[12] and the changing rules often require implementation of new systems and processes – an additional investment in technology and staff.

FALSE POSITIVES – Transactions mislabeled as disputes clog dispute queues, slowing the process and draining unnecessary time and resources from the management of real disputes and the core business.[13]

OVERFLOWING PEND QUEUES – Disputes require a large amount of outbound documentation, all handled by the back-office. As disputes increase, more experienced chargeback representatives are being called in to help with simple disputes, lowering productivity and increasing delays.[14]

INCREASED CUSTOMER COMPLAINTS – disputes impact customer service; cardholders sacrifice time to resolve disputes, too, often having to contact the Issuer multiple times to iron out disputes. Customer service representatives are sometimes ill-prepared to provide thorough dispute assistance to consumers, as they are typically not trained chargeback representatives.[15]

Impact of Disputes on Merchants

Merchants are – quite literally – caught in the middle of chargeback disputes. They face pressure from both Issuers and cardholders to resolve disputes quickly and fairly. Increasingly, cardholders bypass the merchant and go directly to the Issuer to resolve disputes. It's a tall order for the merchant to please everyone. It's key for merchants to understand that sales volume and chargebacks are intricately linked, meaning that overly conservative measures aiming to stop all chargebacks outright can create lost legitimate sales. This is a mistake.

Lax fraud prevention is an error in judgment as well. On average, merchants were victim to 133 successful fraudulent transactions per month in 2014 – a 46% increase over 2013.[16] But sales and revenue aren't the only losses merchants can suffer. Consumers have had a very strong adverse reaction to the highly publicized data breaches last year, voicing their security concerns with their pocketbooks: 59% of U.S. consumers are "extremely" or "very" concerned when it comes to card data security and 60% said they would stop shopping with a merchant or change banks if that merchant or bank suffered a data breach that compromised their card credentials.[17] Ignoring these concerns puts brand reputation and future sales at risk.

FALSE POSITIVES – overly sensitive fraud prevention drives up false positives, prompting manual reviews that drain time and resources and place unnecessary friction in the checkout process. One legitimate attempt at fraud can be accompanied by up to 40 false positives.[18] In other words, up to 97% of transactions flagged as high-risk can be legitimate.[19]

DECREASED EFFICIENCY – The financial impact of chargebacks is not necessarily apparent on the balance sheet. Chargebacks costs merchants in time, money and staff required for manual processing, reconciliation and reporting, and coordinating with various issuing banks.

LOST GOODS/SERVICES – When a consumer files a chargeback, the chances of the merchant receiving the merchandise back are slim to none. Subscription services are not exempt – intangible services rendered cannot be recovered when chargebacks occur.

OVER-REFUNDING – Due to overlap in the process, disputes can lead to excessive refunding. When the merchant issues a refund, it does not automatically halt the initiation of a chargeback. Additionally, a consumer that files a chargeback may also attempt to get a direct refund from the merchant. Blind spots in merchant and Issuer data handicap the merchant.

PENALTIES/FINES – Issuers charge merchants fees and penalties when they exceed a chargeback rate of 1-1.5% for several consecutive months in order to protect consumers' best interests. In some cases, the Issuer may eliminate a merchant's payment processing privileges altogether.

58% of cardholders don't contact the merchant at all when filing a transaction dispute, and another 28% contact the merchant after the dispute had already been filed.

The disconnect between Issuers and merchants is expensive. Lack of communication means transactions suspected as fraud and cardholder initiated disputes snowball into chargebacks rather than potentially being avoided through issuer/merchant cooperation, processing a refund or issuing a credit and ultimately resolving the dispute upfront.

Why Merchant-Issuer Collaboration is Important

There's a palpable reality facing both Issuers and merchants: The Aite Group forecasts CNP fraud to more than double to $6.3 billion by 2018 as a result of EMV.[20] Friendly fraud is already an $11.8 billion problem.[21] Fraud management for CNP payments has always been essential, but as fraud and chargebacks rapidly increase, the time is more crucial than ever for merchants and Issuers to work together to mitigate CNP risk.

Cardholder dispute behavior puts both merchants and Issuers in a bad position. 58% of cardholders don't contact the merchant at all when filing a transaction dispute, and another 28% contact the merchant *after* the dispute had already been filed. When cardholders bypass the merchant and contact the Issuer directly, you lose time and money. Disputes are expensive to manage and write-offs and arbitration are costly – arbitration cases alone can cost $250 to $750 per case.[22]

Issuer and Merchant Collaboration Tools Relieve the Burden

Chargeback dispute notifications facilitate better and more timely communication between Issuers and merchants who are part of a collaborative network facilitated by a service provider. This network lets issuers notify merchants of pending disputes, empowering the merchant to resolve the dispute directly with the consumer. By communicating before a dispute is processed as a chargeback, merchants have the opportunity to resolve the issue and process a refund or issue a credit so that a chargeback never occurs.[23]

Real time data sharing between merchants and Issuers aid in the fight against fraud. Issuers can provide these real time alerts to notify merchants the likelihood of a chargeback result is high. Rather than immediately filing a chargeback when a customer dispute is filed, the Issuer notifies the network service provider, which passes the data to merchants who can then resolve the dispute directly with the cardholder.

Benefits for Issuers

When Issuers can hand off disputes directly to merchants to resolve, they free up valuable resources to focus on core business competencies. This preserves customer experience *and* and the bottom line. Additional benefits include:

HIGHER EFFICIENCY — Rather than dumping time and staff into resolving extensive disputes, Issuers can automate the dispute resolution process and resolve disputes quickly.

REDUCED OF COMPLIANCE BURDEN — Properly filing chargebacks with the correct reason codes and documentation is time-consuming. Issuer alerts eliminate the need for this by allowing the Issuer to pass the dispute to the merchant to handle directly.

BETTER CUSTOMER EXPERIENCE — By using alerts to bring the merchant back into the loop and communicate directly with the cardholder, the customer wins. When disputes are handled internally by Issuers, it may lead to lags in response time, lack of timely access to critical documentation and other problems. Issuer alerts cut down on attrition due to bad customer experience.

LOWERED DISPUTE COSTS — Automating the dispute process has been proven to decrease costs by 50% without sacrificing customer service.[24] Further, automatically writing off disputes has a large detrimental impact on operational margins. By working directly with merchants Issuers can lower write-offs and protect their bottom line.

Benefits for Merchants

Collaboration where an Issuer can direct the cardholder to the merchant to resolve the dispute directly puts the merchant back in control: they can resolve the dispute before it becomes a chargeback, by offering a refund or issuing a credit. There are a number of benefits:

INCREASED EFFICIENCY — More efficient use of resources and staff - chargebacks are expensive because the dispute resolution process is complex, time consuming and labor intensive. The expert level of understanding required is significant. Manual processing, reconciliation and reporting as well as interaction with various banks often results in inefficiency - some of which may not always be evident on the balance sheet.

MORE EFFICIENT USE OF RESOURCES AND STAFF — Near real-time notifications alert merchants of chargebacks immediately, enabling quick resolution without draining resources and staff to the exhaustive chargeback management process.

ELIMINATE CHARGEBACK FEES AND PENALTIES — Collaboration allows for the prompt resolution of disputes before fees and penalties can be imposed.

AVOID ADDITIONAL LOSSES OF GOODS AND SERVICES — Merchants rarely receive back the original merchandise or service provisioned, adding to the total amount of losses. Organizations with a recurring business model or subscription services must also take into account services rendered when chargebacks occur, as these non-tangible goods cannot be returned.

Collaboration is key for Issuers and merchants for all these reasons. Participating in a network with real-time collaboration provides the ability for both Issuers and merchants to resolve disputes efficiently and easily, without negatively impacting the customer experience and before resulting in a chargeback to the merchant.

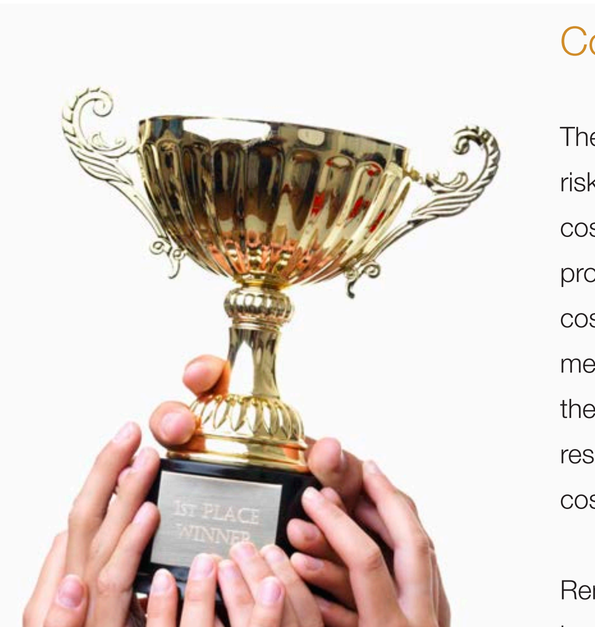
Verifi's Award Winning, Cardholder Dispute Resolution Network™ (CDRN) Bridges the Gap Between Merchants and Issuers so Both Parties Win

Verifi's patented, "closed loop" Cardholder Dispute Resolution Network™ (CDRN) connects Issuers directly with participating merchants to enable near real-time collaboration in resolving both (credit and debit) fraud and non-fraud disputes quickly. Whether the Issuer is identifying a fraudulent charge before the cardholder or the cardholder is the one initiating a dispute, by sharing the information with the merchant, all parties benefit. CDRN enables the Issuer to address the dispute with the merchant directly – allowing both to avoid the costs and operational drain associated with chargebacks.

BENEFIT	MERCHANTS	ISSUERS
STOP chargebacks and disputes and protect your bottom line	✔ **Stops up to 40%* of chargebacks**	✔ **Reduce small balance write-offs** – incurred in lieu processing chargebacks
Complete, comprehensive coverage	✔ **Prevents BOTH fraud and non-fraud chargebacks**	✔ **Mitigates both fraud and non-fraud dispute reason codes**
Avoid unnecessary costs and focus on core business	✔ **Avoid costly fees, fines and penalties**…and potential loss of your processing privileges ✔ **Avoid "false positives"** – Some solutions create dispute signals that don't turn into actual chargebacks, adding costs for protection that merchants don't need ✔ **Real time notifications stop losses** – Prevent chargebacks from additional billings and stop losses from fulfillment of goods and services	✔ **Lower costs and regain resource time** – our proprietary network enables the direct exchange of information and feed back loop between Issuers. The result - **disputes can be resolved with certainty before they become chargebacks**
STOP unneces-sary additional costs related to chargebacks	✔ **Stop excessive refunding** - Chargeback dispute notifications let merchants keep money they would have lost to over-refunding on false charge-backs as well as second chargebacks (prevented when recurring billings are stopped automatically). By exchanging data with Issuers, merchants have zero guesswork about refunding transactions and reduce time and operational costs on processing chargebacks that can't be avoided.	✔ **Speeds resolution time to avoid ad-ditional expenses** – Average resolution time of 28 HOURS stops subsequent bill-ings that create even more chargebacks and lowers costs associated with result-ing representments and card association fees.

*Results may vary on a case by case basis. Terms subject to contractual provisions.

CDRN enables both merchants and Issuers to support their reputation and brand by managing disputes quickly and seamlessly, reducing cardholder dissatisfaction and potential loss in purchase/sales volume. Verifi's growing network includes emerging to Fortune 500 Merchants and Top Tier Issuers who work together with one common goal —to protect payments and boost profits. With triple digit growth and supporting over 5,500 accounts, our credibility, business development efforts, and flexible integrations options allows Verifi to board new merchants and Issuers easily.



Conclusion

The current economic climate in the payments ecosystem is contributing to rising risks and costs. By working together, Issuers and merchants can minimize risks, lower costs and improve the customer experience by streamlining the dispute handling process on both ends.[25] Collaboration relieves Issuers from increased operational costs and unnecessary write-offs and enables them to direct disputes back to the merchant (where they SHOULD be handled), so merchants can respond and resolve the issue quickly and directly with the consumer. Merchants regain control and can respond and resolve the issue quickly and directly with the consumer, preventing costly chargebacks with complete accuracy.

Removing the middle man facilitates improved customer relationships and better business for both Issuers and merchants. When the two collaborate…everyone wins.

About Verifi

Verifi, an award-winning provider of end-to-end payment protection and management solutions, was founded in 2005 to help our clients effectively manage the payments challenges they face everyday. Verifi helps merchants safely process payments, combat fraud, prevent and resolve costly chargebacks, as well as increase billings and keep loyal customers. Our best-in-breed solutions and white glove support are trusted by a wide range of industries from emerging companies to the Fortune 500. Headquartered in Los Angeles, California, we process more than $20 billion transactions annually and currently serve more than 5500 accounts internationally.

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