What is the Impact of False Positive Chargeback Alerts?

KEY TAKEAWAY: False positives are expensive. They lower profits and consume valuable resources as a result in paying for protection where no chargeback risk existed. These costs add up quickly.

False positive alerts occur when a merchant receives and pays for an alert of a pending chargeback threat where none exists. This can result in paying for protection that was not needed, expensive manual reviews and damage to the bottom line by over-refunding on false alerts. False positives result from aged, inaccurate data sources and communication delays, and they can significantly increase a merchant's true cost for chargeback protection.

There are three significant and definitive ways that false positives impact a merchant's bottom line:

- **Paying for alerts that are not really chargebacks means you paid more than you think** – Other solutions can have false positive alert rates of 50 percent or more. The actual price you pay for true chargeback protection is much higher as a result.
- **Paying for alerts that are not really chargebacks means you lose profits to over-refunding** – False positives lead merchants to issue refunds on alerts that never actually turn into chargebacks. That means you're losing sales profit on legitimate transactions.
- **Paying for alerts that are not really chargebacks means increased operational costs and internal resource burdens** – False positives lead to unnecessary manual reviews, which increase labor costs and take dedicated resources away from growing your business.

Chargeback prevention is important, but accurate protection is even more imperative. The costs of false positives add up quickly. Here is a simple illustration of the negative impacts false positives create:

Assumptions:

$40 Cost Per Alert
12,000 Annual Chargeback Alerts

$50 Product or Service Retail Price
6,000 False Positive Chargeback Alerts*
**12,000 Annual Chargeback Alerts X 50% False Positive rate*

Let's add it up . . .

6,000 False Positive Chargeback Alerts	x	**$50** Refunded Retail Price	=	**$300,000**	**Revenue Lost to Over-refunding**
6,000 False Positive Chargeback Alerts	x	**$40** Cost Per Alert	=	**$240,000**	**Alert Overpayments**

Total Revenue Lost Due to False Positive Chargeback Alerts **$540,000**

...and that doesn't even consider lost goods/services or internal resources wasted on manual reviews that divert energy intended for the core business.

Advertised Cost Per Chargeback Alert

$40 VS. **$130**

Actual Cost Per Valid Chargeback Alert

$480,000 Total Paid to Alert Service
$300,000 Profits Lost to Over-refunding
$780,000/6,000 Valid Alerts = $130

Understanding CDRN's Patented Closed-Loop Difference

KEY TAKEAWAY: Verifi's Cardholder Dispute Resolution Network's™ (CDRN) patented and proprietary closed-loop process stops chargebacks with unmatched quality, avoiding costly false positives, defects and lost revenue.

Verifi's Cardholder Dispute Resolution Network (CDRN) becomes active the moment a customer files a dispute with the issuer. CDRN's patented closed-loop process connects merchants with issuers, routing the dispute data directly from the source for resolution. The chargeback process is stopped, providing the merchant with up to 72 hours to review the dispute and take action. This differs from competitive solutions' open-loop processes where the chargeback dispute process continues in tandem with the alert being filed and typically requires a response within 24 hours. The resulting "race to the refund" can cause defects (chargeback was not stopped) and additional losses from erroneous fulfillment of goods.

Solutions that use open-loop processes can also be hampered with timing delays in receipt of needed data to help merchants effectively resolve disputes before they turn into chargebacks. With CDRN, the merchant is notified of the cardholder dispute in near real time so they can resolve the issue directly with the issuer (process a refund or credit) to stop the dispute from escalating to a chargeback and avoid expensive fines, fees and penalties. Merchants are always in control and have the time and insight needed to determine the legitimacy of the sale and decide to let the dispute advance and fight the chargeback through representment later.

The CDRN Closed-Loop Difference – Unparalleled Protection. Here's Why:

Comprehensive coverage and unmatched accuracy

- CDRN's, patented closed-loop process is directly integrated with top issuers so merchants can be confident that notifications are real customer-initiated disputes and not false positives (disputes that will not become chargebacks). CDRN provides comprehensive coverage that covers BOTH fraud or non-fraud disputes for any card type.
- Other solutions can have false positive rates of 50 percent or more, meaning merchants are paying for alerts that are not really chargebacks and use aged data that leads to defects. Merchants should take false positive and defect rates into account when evaluating true "coverage" rates of these other solutions. The combination of bad data, communication silos and rushed response leads to defects that end up hurting profits and increasing the total cost of the service.

CDRN STOPS the chargeback process

- CDRN stops the chargeback process and gives merchants up to 72 hours to respond to the dispute in the best way for their business, removing the possibility of defects from the equation and ensuring the merchant has time to make the best, informed decision and also stop fulfillment to prevent additional losses.
- Other solutions do not stop the chargeback process and often require the merchant to respond to an alert within 24 hours. Since alerts are often generated from aged data, this leaves merchants in a "race to the refund," which can lead to costly defects or issuing too much credit.

Robust and timely data direct for the source

- CDRN notifications come directly from the source of the dispute – the issuing bank – so merchants can be certain it is a real, customer-initiated dispute.
- Other solutions combine data from several sources through an open-loop workflow, pushing information to merchants in a fragmented way while demanding a response in a shorter time frame. The combination of flawed and aged data, communication silos and rushed response leads to defects and false positives (alerts that won't become chargebacks) that end up increasing the total cost of the service.

Prompt notifications help stop additional losses

- Merchants receive insight into the chargeback in near real time that helps to stop fulfillment of goods or services for fraud reasons, preventing additional losses.
- Open-loop solutions are also hindered by communication delays, leaving only a 24-hour window in which merchants can respond. By that time, it's usually too late to stop shipment of goods or provisioning of services.