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# Dispute- Prevention Solutions:

**THIRD-PARTY TOOLS  
LIMIT DISPUTE-RELATED  
LOSSES**

Dispute-Prevention Solutions: Third-Party Tools Limit Dispute-Related Losses, a PYMNTS and Verifi collaboration, examines how businesses manage disputed card transactions and their systems' effectiveness at limiting losses from disputes and fraud. To gather information about how merchants' procedures for resolving disputed transactions limit misuse of card payments, we surveyed 301 merchants in four business categories — retail, entertainment and gaming, travel and leisure and digital subscription services — from Dec. 7, 2021, to Jan. 7, 2022.

**May 2022**

# Dispute- Prevention Solutions:

THIRD-PARTY TOOLS LIMIT  
DISPUTE-RELATED LOSSES

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### ACKNOWLEDGMENT

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Dispute-Related Losses was produced in collaboration with Verifi,  
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following findings, methodology and data analysis.



# Introduction

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The online shopping surge of the past two years has heightened the risk of credit card fraud and driven many merchants to invest more in combatting it. Merchants tend to rely on a mix of proprietary and third-party tools to resolve transaction disputes and clamp down on fraud, but PYMNTS researchers found that many merchants have a somewhat skewed view of their systems’ effectiveness.

Merchants that rely primarily or exclusively on proprietary tools for resolving transaction disputes and preventing fraud tend to rate their in-house tools’ effectiveness very highly. Merchants that rely mainly on third-party tools tend to view them as less effective. But our data reveals that these chargeback

and fraud-prevention tools work very differently from how merchants perceive them.

Forty-five percent of the merchants that use only in-house dispute-management applications say their systems are highly effective in managing customer disputes and detecting fraudulent transactions. PYMNTS’ research shows that third-party systems are more effective at fighting fraud, as 92% of the merchants that use only third-party systems for detecting fraud can keep their losses below 0.5% of total revenue.

None of the firms using only third-party tools suffered losses greater than 1% of their card payment revenue in the prior 12 months, and just 8.3% lost more than

0.5%. Of the merchants relying on proprietary tools they believe in, 37% lost between 0.5% and 1% of annual revenues, and 2.9% lost more than 1% of revenues.

These are a few of the findings in Dispute-Prevention Solutions: Third-Party Tools Limit Dispute-Related Losses, a PYMNTS and Verifi collaboration, that examines how businesses manage disputed card transactions and their systems’ effectiveness at limiting losses from disputes and fraud. We surveyed 301 merchants in four business categories — retail, entertainment and gaming, travel and leisure and digital subscription services — from Dec. 7, 2021, to Jan. 7, 2022.

This is what we found.

**61%** of merchants that have had to deal with customer disputes have encountered the misuse of a card by a member of the cardholder's family.

**Merchants believe their in-house dispute programs are more effective than outside dispute services. However, data reveals that to be a misconception.**

Forty-five percent of the merchants that only use in-house dispute-management applications say their systems are highly effective at managing customer disputes and detecting fraudulent transactions. Another 38% of the merchants using only proprietary systems say they are somewhat effective, although PYMNTS' research shows that third-party systems are actually more effective at fighting fraud. The firms using third-party tools tended to do a better job limiting their losses than merchants that relied on proprietary tools. None of the merchants using only third-party tools lost more than 1% of their card payment revenue in the prior 12 months. By contrast, 2.9% of merchants using proprietary tools lost more than 1% of revenues.

**Half of the merchants we surveyed do not feel they have a reliable way to identify first-party misuse, a situation where a customer disputes a legitimate transaction with their issuing bank after goods have been received or services have been rendered.**

Twenty-three percent of merchants say they undercount disputes suspected of being fraudulent, and 27% say they overcount them. Just 50% of merchants say they accurately track disputed transactions, which underscores the difficulty merchants have tracking certain types of fraud, such as a family member's misuse of a card or a customer making a false claim about the merchant's failure to deliver the product.

**Merchants do not seem to understand the scope of their first-party misuse problem, and therefore many do not understand they are leaving so much money on the table.**

Merchants that describe their dispute-management tools as "very" or "extremely" effective tend to overidentify instances of fraud. Fifty-four percent of these merchants say they overidentify fraudulent disputes from family members attempting to make an unauthorized purchase, and 62% incorrectly flag customers' disputes concerning a product that was never delivered as fraud. Just 40% of the merchants that describe their dispute-management systems as "very" or "extremely" effective accurately identify unauthorized purchases by family members.





Just **50%** of merchants say they accurately track disputed transactions.

**The customer experience extends beyond the act of purchasing.**

Customer disputes that are submitted through the issuing bank are perceived to be the result of an issue after purchase, such as the customer’s dissatisfaction with the situation or service, and have less to do with fraud. Family fraud is among the more common types of misuse; it arises when a consumer makes a legitimate purchase with a family member’s card. According to PYMNTS’ research, 61% of merchants that have had to deal with customer disputes have encountered this type of fraud.

**Third-party solutions can reduce the time and cost of mitigating first-party abuse.**

Merchants often have more than one reason for using third-party tools to manage disputed transactions. Two-thirds of businesses say they use third-party tools because the tools help them avoid the labor costs and transaction fees they incur when they resolve disputes with in-house tools. Fifty-six percent of businesses say third-party tools provide a better experience for customers and limit the risk that the merchant will lose the customer. Fifty-one percent say third-party tools improve relationships with customers, and 44% say the tools help improve customers’ trust in the merchants.

# In-house and inadequate

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Two-thirds of merchants surveyed with annual revenues greater than \$1 billion do not use third-party services and have opted to use in-house methods instead. In reality, however, these merchants suffer revenue losses 16% to 34% higher than those relying solely on third-party platforms.

We found that merchants with more than \$1 billion in annual revenue lose 0.51% to disputed card transactions; the overall average is 0.43%.

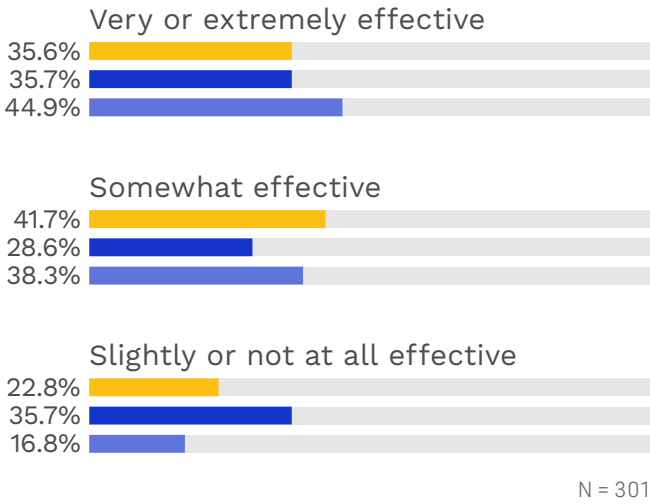
The firms that do not use third-party systems also record higher losses than other firms, at 0.46% of yearly revenue. The 14 surveyed firms that indicated they only use third-party tools lost just 0.32% of revenue, the least percentage out of our three categories noted in Figure 1. The firms that rely on a mix of in-house and external tools lost 0.43% of yearly revenue, which is in line with the overall average.

The proportion of lost revenue among the four business categories surveyed was nearly even. Entertainment and gaming companies lost 0.41%, digital subscription providers lost 0.42%, travel and leisure companies lost 0.45% and retailers lost 0.46%.

FIGURE 1:  
How merchants tally the damage from disputed card transactions

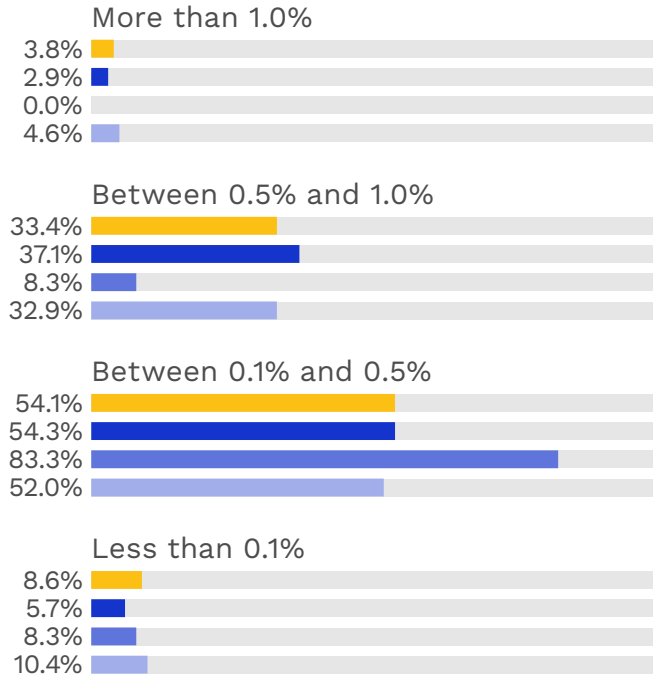
1A: Share of merchants with select views on the effectiveness of their dispute-management systems, by the type of systems used

- Tools provided by third parties and at least one additional tool
- Third-party tools
- Firms that do not use third-party tools



1B: Share of organizations' annual revenues lost to disputes in the last 12 months, by type of tools used to manage and prevent disputes

- Average
- Firms that do not use third-party tools
- Only tools provided by third parties
- Tools provided by third parties and at least one additional tool



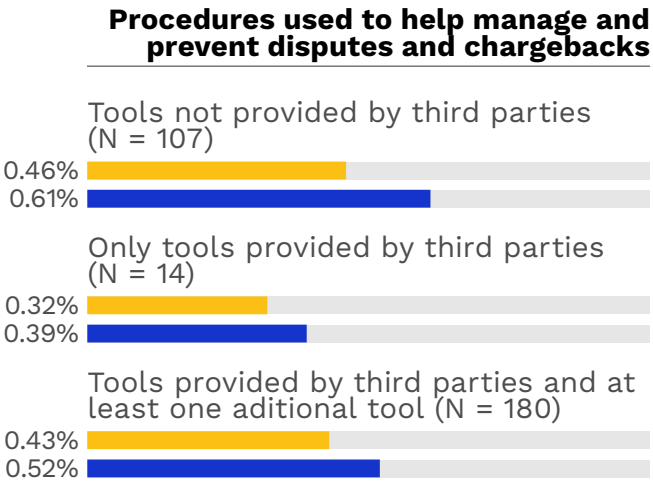
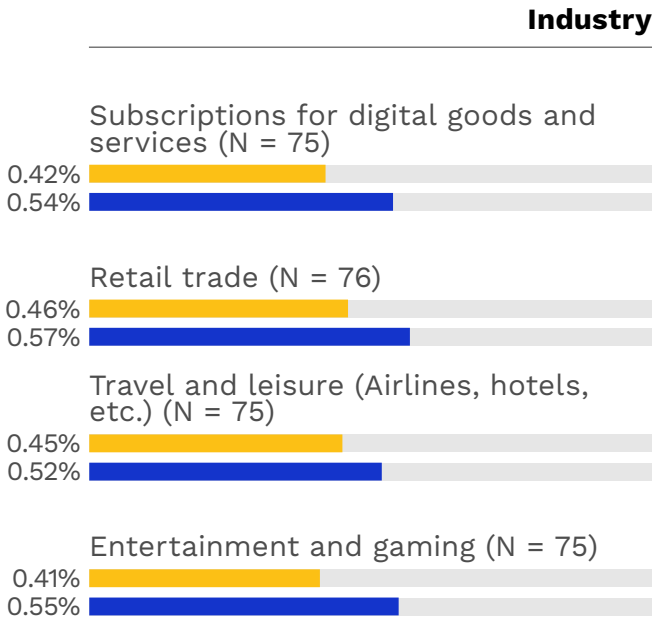
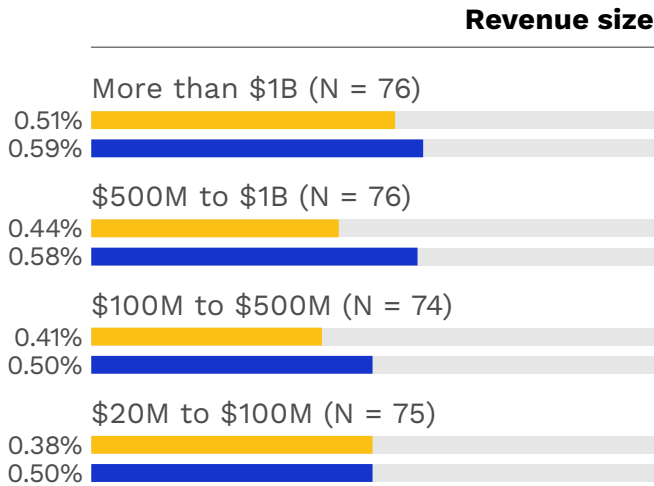
N = 290: Firms that experienced disputes in the last 12 months

Source: PYMNTS.com | Verifi  
Dispute-Prevention Solutions

**FIGURE 1 (continued):**  
**How merchants tally the damage from disputed card transactions**

1C: Share of organizations’ transactions disputed and annual revenues lost to disputes in the last 12 months

- **Percentage of organizations’ annual revenues lost to disputes in the last 12 months**
- **Percentage of organizations’ transactions disputed in the last 12 months**



Source: PYMNTS.com | Verifi  
Dispute-Prevention Solutions



Approximately **half** of the merchants we surveyed believe they are not accurately identifying first-party misuse (i.e., friendly fraud).

# The challenges of accurately measuring card payment fraud

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**Approximately half of the merchants we surveyed believe they are not accurately identifying first-party misuse (i.e., friendly fraud).**

When considering a suspicious card transaction by a relative of a cardholder, for example, 46% of merchants say they systematically overidentify fraud, and 9.8% say they systematically underidentify fraud. Forty-four percent of merchants say their measurements of this kind of family-based fraud are accurate. Similar numbers exist for goods returned after a return window's expiration: 50% of firms say they tend to underidentify fraud in this situation, and 9.1% say they overidentify fraud. Forty-one percent of firms say they are accurately measuring fraud.

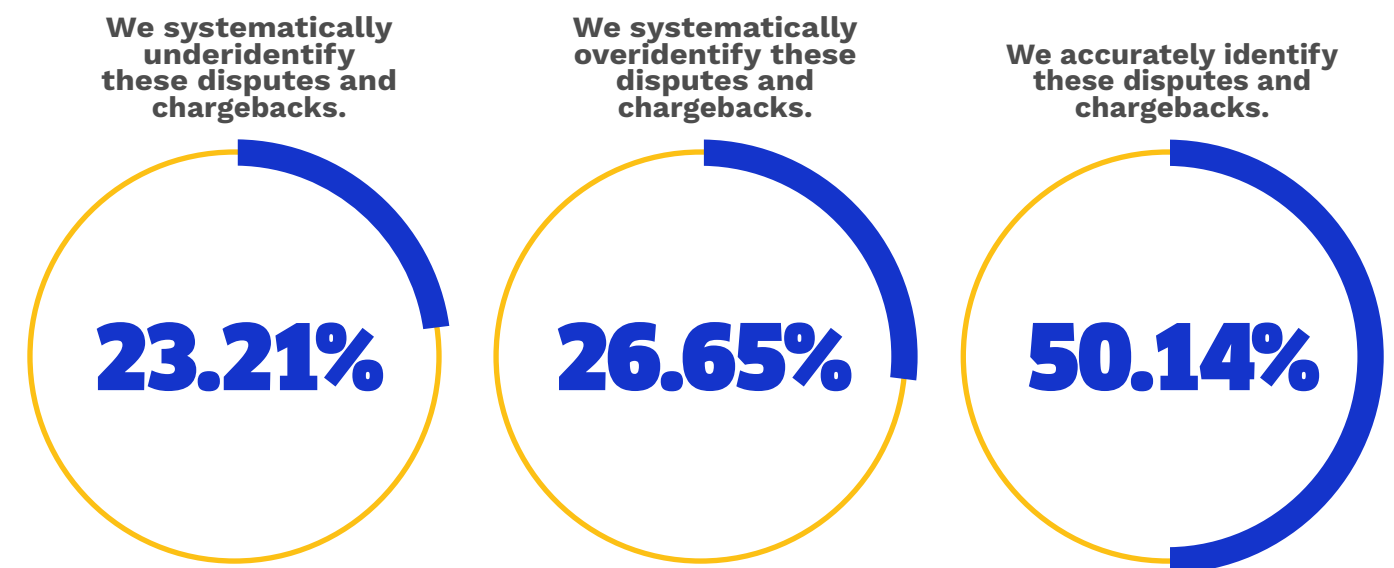
Merchants are reacting to the challenges of accurately measuring the several types of first-party misuse (i.e., friendly fraud) by employing various monitoring tactics. The most common is analyzing a cardholder's payment history alongside data on the dispute. Seventy-two percent of all firms make this comparison,

although 84% of the merchants that only use in-house systems also compare payment history and dispute data. Sixty-seven percent of merchants that combine third-party systems with in-house tools also compare these two sets of data.

Smaller proportions of merchants use other tactics when analyzing fraud. Thirty-four percent analyze data about a product's usage with information on the dispute, and 29% assess details of the delivery confirmation with data on the disputed payment.

**FIGURE 2:**  
**How merchants perceive their dispute-management capabilities**

2A: Share of merchants that perceive their dispute-management capabilities meet select accuracy levels across all dispute types



N = 301: Complete sample

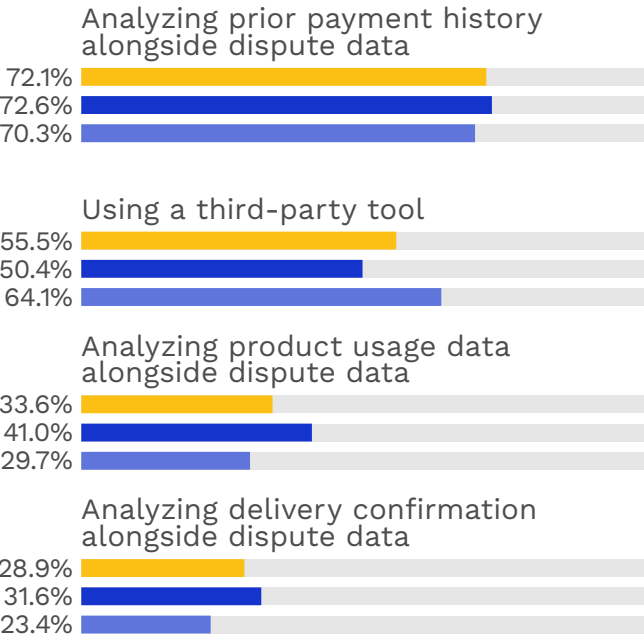
Source: PYMNTS.com | Verifi  
Dispute-Prevention Solutions



FIGURE 2 (continued):  
How merchants perceive their dispute-management capabilities

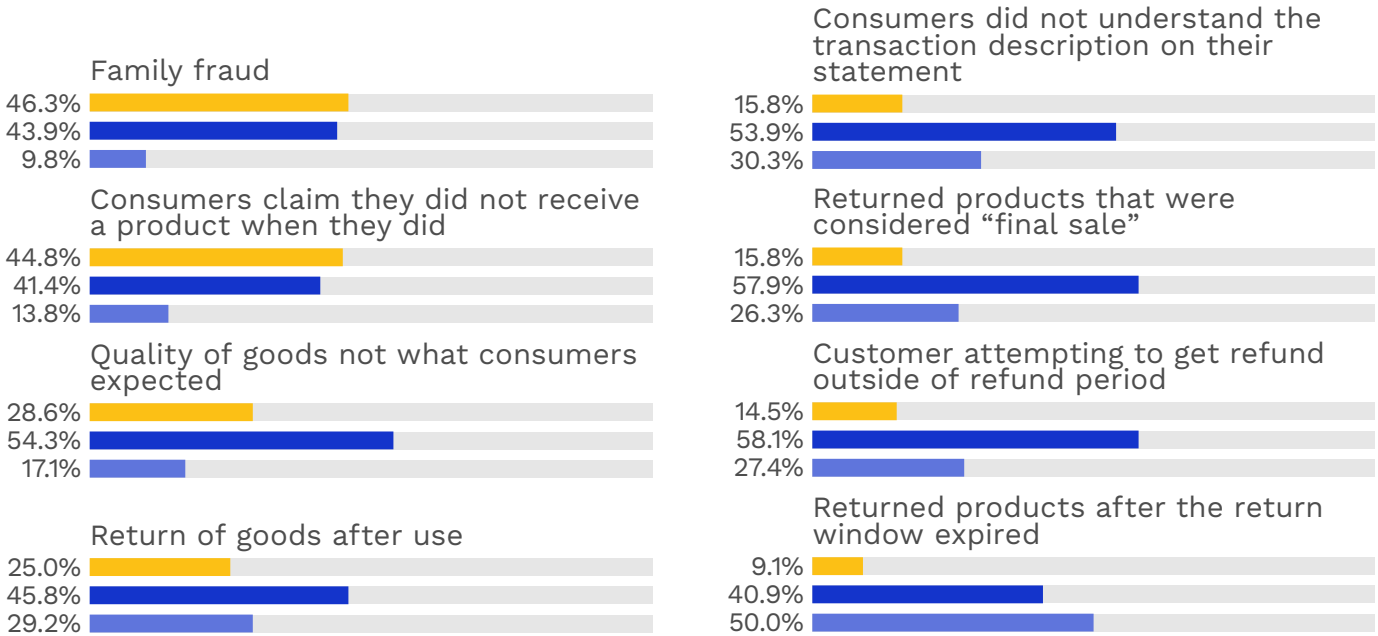
2B: Share of merchants that use select methods to track first-party misuse, by effectiveness of tools

- Average (N = 301)
- Very or extremely effective systems (N = 117)
- Slightly or not at all effective systems (N = 64)



2C: Share of merchants that perceive their dispute-management capabilities meet select accuracy levels, by type of potential first-party misuse

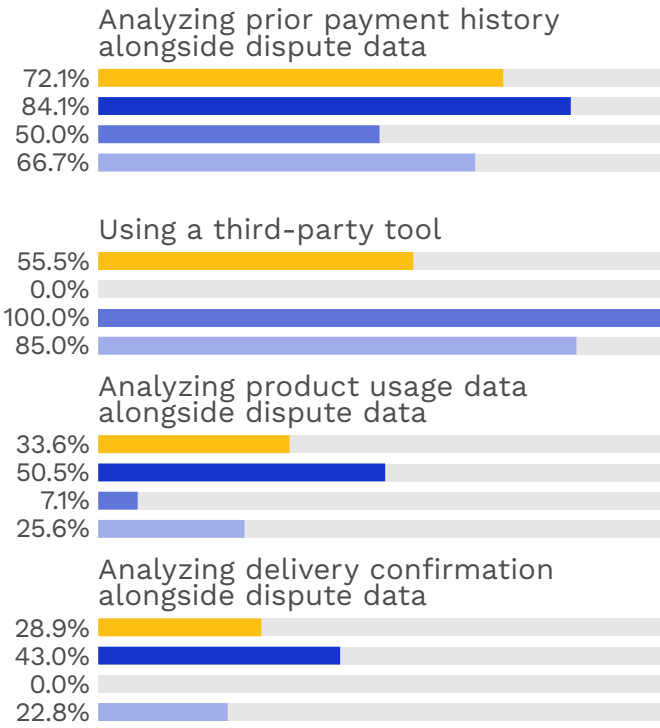
- We systematically overidentify these disputes and chargebacks.
- We accurately identify these disputes and chargebacks.
- We systematically underidentify these disputes and chargebacks.



N = 301: Complete sample

2D: Method for tracking and calculating first-party misuse, by type of tools used to manage and prevent disputes

- Average (N = 301)
- Firms that do not use third-party tools (N = 107)
- Third-party tools (N = 14)
- Tools provided by third parties and at least one additional tool (N = 180)



Source: PYMNTS.com | Verifi  
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# Merchants’ perceptions and misconceptions

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**Several common types of disputed transactions may be candidates for automation of the dispute-resolution process.**

We found that 48% of merchants that view their dispute-management tools as highly effective believe they overidentify disputes involving subscription cancellations as being illegitimate. Twenty-two percent of these merchants say they are underidentifying these instances. Given that just 30% of this group say they are accurately capturing the customer disputes that are attempts to commit fraud, rather than first-party misuse, there may be room for merchants to improve the accuracy of their dispute-management processes by implementing more third-party systems.

Merchants that view their dispute-management systems as ineffective or only slightly effective also report struggling to accurately catch illegitimate dispute claims. Fourteen percent of this group say they overidentify cardholder dispute claims about an inability to cancel a subscription as fraud. Far more of these merchants — 43% — say they underidentify these claims, and another

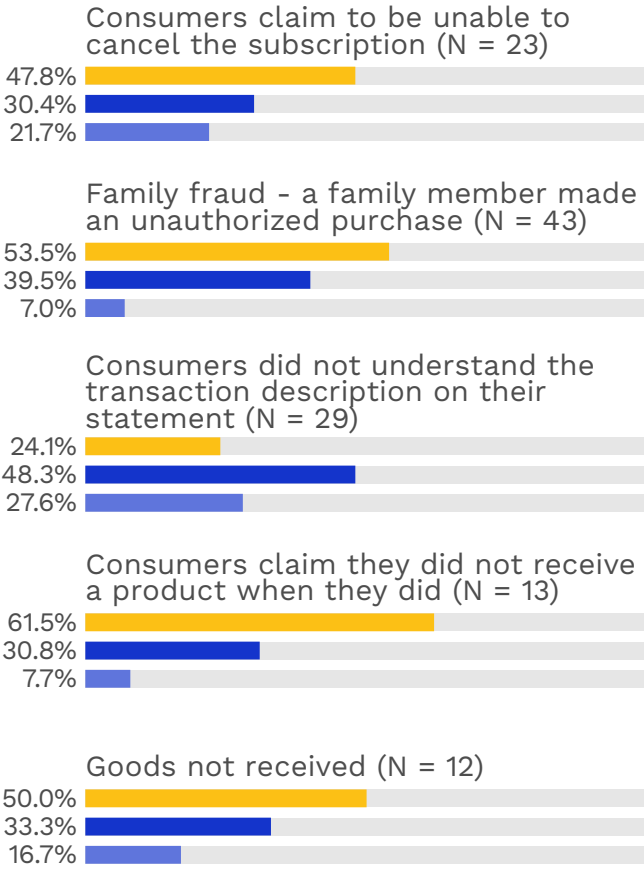
43% say their fraud tracking of these claims is accurate. Throughout our data, the pattern is clear: merchants that believe their dispute-management tools are successful admit their issue tends to be identifying legitimate disputes as illegitimate, and those that believe their systems are less successful have the opposite issue — tending to identify illegitimate disputes as legitimate.

The inconsistency between merchants’ views of their dispute-management tools’ effectiveness and the actual accuracy of their dispute tracking is evident with other categories of payment disputes, including a family member’s unauthorized use of a card, a cardholder’s inability to understand the purchase’s description on their statement and claims that products were never delivered.

**FIGURE 3:**  
**Causes of cardholder disputes**

3A: Share of merchants with “very” or “extremely” effective dispute-management tools that identify reasons for disputes, by dispute accuracy

- We systematically overidentify these disputes and chargebacks.
- We accurately identify these disputes and chargebacks.
- We systematically underidentify these disputes and chargebacks.



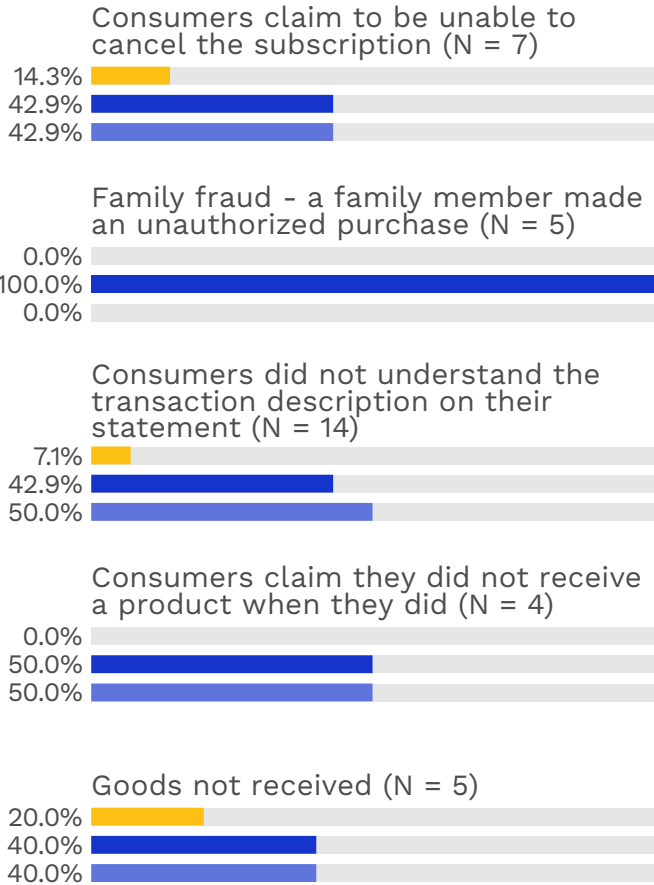
Source: PYMNTS.com | Verifi  
Dispute-Prevention Solutions



**FIGURE 3 (continued):**  
**Causes of cardholder disputes**

3B: Share of merchants with “slightly” or “not at all” effective dispute-management tools that identify reasons for disputes, by dispute accuracy

- **We systematically overidentify these disputes and chargebacks.**
- **We accurately identify these disputes and chargebacks.**
- **We systematically underidentify these disputes and chargebacks.**



Source: PYMNTS.com | Verifi  
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# Measuring the frequency of cardholder disputes

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**Nine out of 10 merchants experience disputes with customers due to the customers' dissatisfaction, whereas just five in 10 merchants experience actual fraud.**

Our research found that the number of disputes that merchants received from their customers submitting through their card issuer outnumbered instances of disputes submitted due to true fraud activity. Sixty-one percent of merchants have experienced unintentional fraud by a member of the cardholder's family making an unauthorized purchase, making this the most common type of first-party misuse. Eighty-three percent of entertainment and gaming merchants that have dealt with customer disputes have had to face this issue, substantially more than the other merchant categories surveyed.

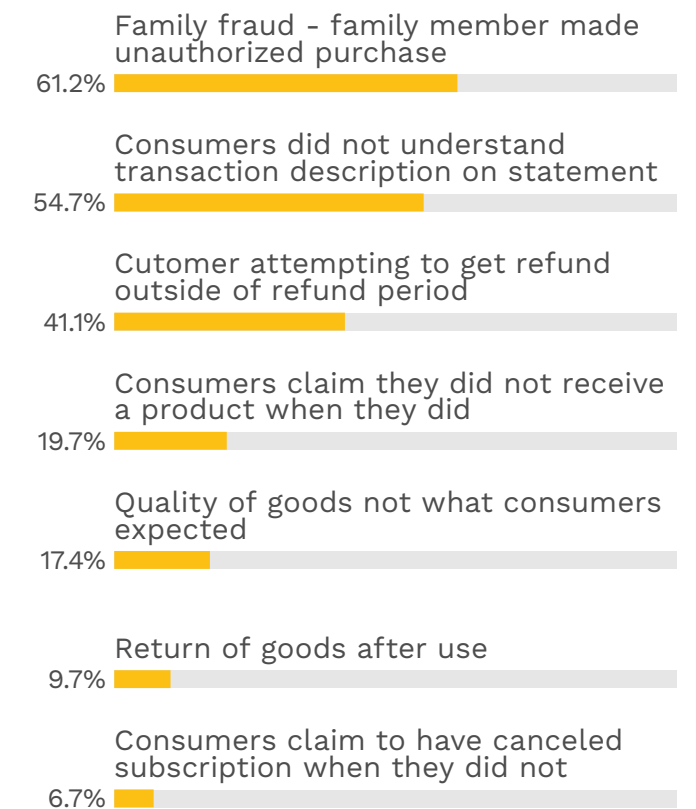
Sixty-three percent of digital subscription providers, 56% of travel and leisure companies and 46% of retailers have also faced this sort of disputed transaction. Other common causes of customer disputes appear to materialize at the time of purchase or shortly afterward.

Transaction disputes also frequently arise well after the purchase. Fifty-five percent of merchants that have had to contend with disputes say cardholders complained because they failed to understand a transaction description on their card statement. PYMNTS' research shows that merchants that rely exclusively on third-party dispute-management tools and applications have a smaller proportion of their total transactions challenged by customers. Cardholder attempts to return a purchased item after the refund period has lapsed have been a problem for 41% of merchants dealing with cardholder disputes.

The frequency of disputes varies by industry, with entertainment and gaming companies typically encountering them more often than other industries and retailers. Seventy-five percent of entertainment and gaming companies that have faced cardholder disputes have dealt with a customer's failure to understand the purchase's description on their card statement, and 51% of entertainment and gaming companies with disputed customer purchases have encountered problems with late returns.

**FIGURE 4:**  
**Common reasons for first-party card misuse (friendly fraud) and disputes**

4A: Share of merchants that experienced select first-party misuses in the last 12 months



N = 256: Firms that have experienced customer disputes

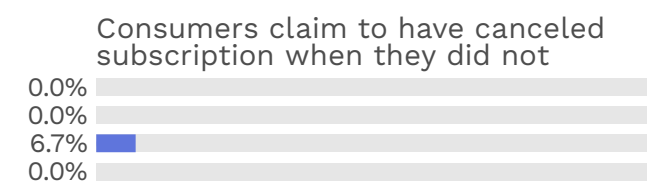
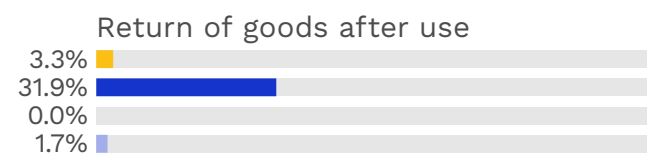
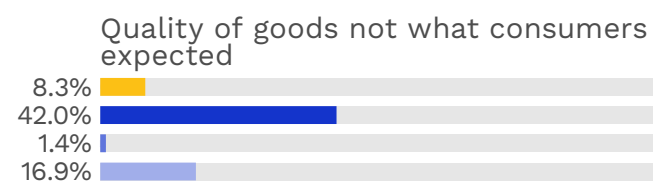
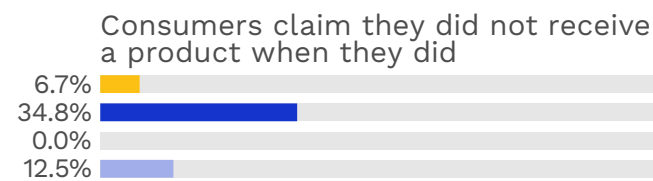
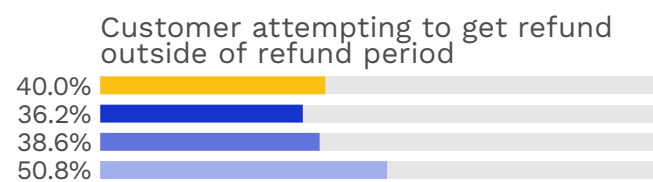
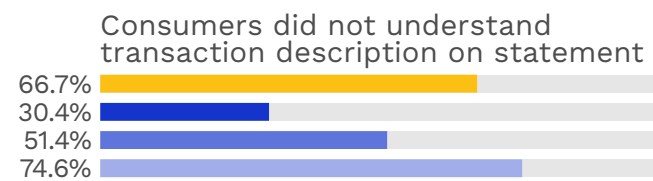
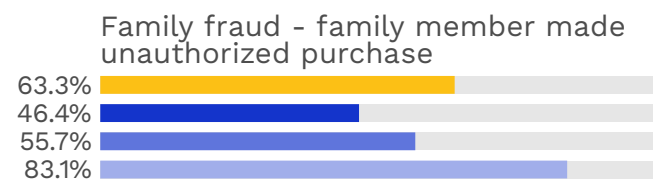
Source: PYMNTS.com | Verifi  
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**FIGURE 4 (continued):****Common reasons for first-party card misuse (friendly fraud) and disputes**

4B: Share of merchants that experienced first-party misuse in the last 12 months, by industry

- Subscriptions for digital goods and services
- Retail trade
- Travel and leisure
- Entertainment and gaming



N = 256: Firms that have experienced customer disputes

Source: PYMNTS.com | Verifi  
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**Nine out of 10** merchants experience disputes with customers due to the customer's dissatisfaction, whereas just **five in 10** merchants experience actual fraud.



# Fighting fraud at all hours

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Eighty-five percent of merchants that say their dispute-resolution systems are highly effective have a 24/7 customer support team, making round-the-clock support one of the more widely employed dispute-management tools.

In addition, 70% of merchants that indicated their dispute-resolution and anti-fraud systems are ineffective or just slightly effective have support teams available around the clock. PYMNTS’ research has found that third-party dispute-management tools are more effective at limiting a merchant’s losses arising from cardholder disputes.

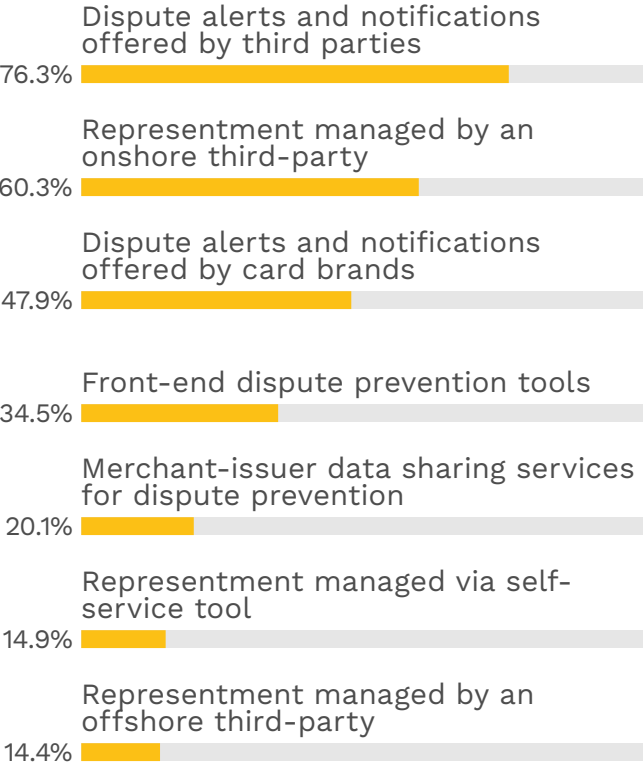
Merchants also challenge cardholder disputes when they believe a transaction was legitimate and the cardholder is either mistaken or lying about the disputed purchase, actions called chargeback representments. Fifty-nine percent of merchants use this tactic to push back against disputed transactions.

Merchants with systems that are not effective or just slightly effective are more likely than other merchants to issue refunds and notify customers with an alert from the issuing bank. Fifty-nine percent of merchants that say their systems are ineffective issue customer refunds, while 48% with highly effective systems issue refunds.

Merchants also track and blacklist habitual abusers of the dispute-resolution process: 45% track the habitual abusers and 29% blacklist them.

FIGURE 5:  
Merchants’ dispute-resolution tools

5A: Share of merchants using specific third-party tools to help manage and prevent disputes

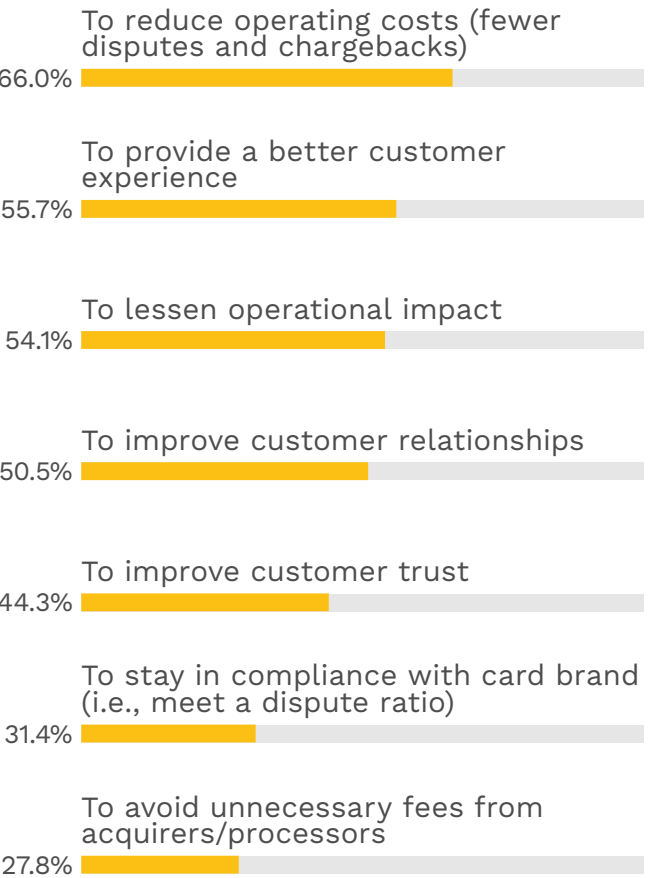


N = 192: Firms that use procedures and tools provided by third parties to help manage and prevent disputes and chargebacks

Source: PYMNTS.com | Verifi  
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FIGURE 5 (continued):  
Merchants' dispute-resolution tools

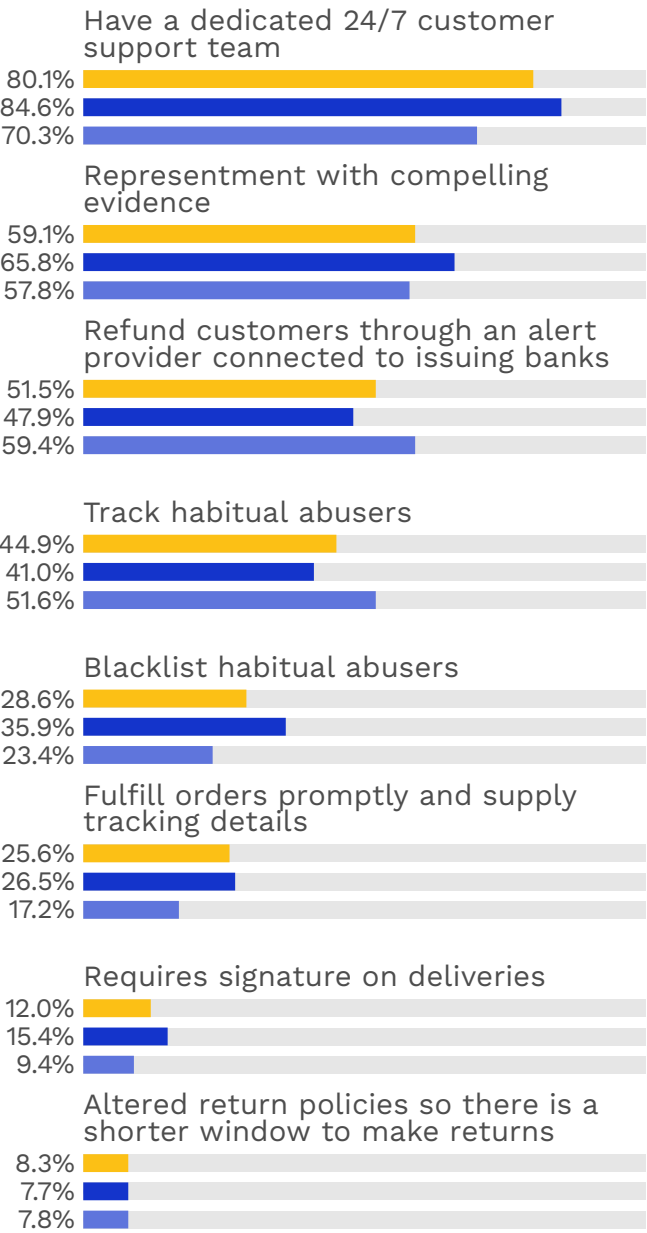
5B: Share of merchants citing important reasons for using third-party tools to help manage and prevent disputes



N = 192: Firms that use procedures and tools provided by third parties to help manage and prevent disputes and chargebacks

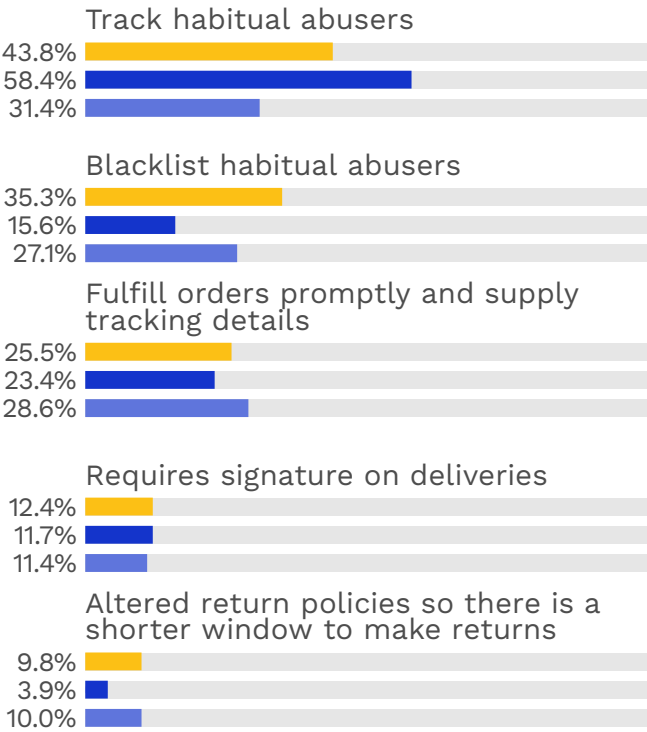
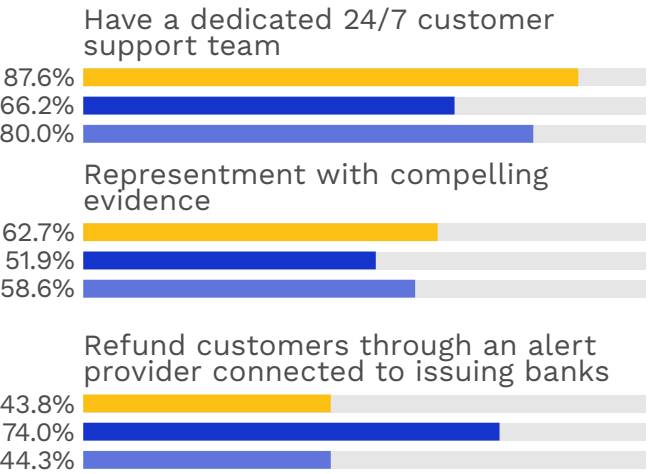
5C: Share of merchants that use select methods for mitigating losses from first-party misuse of card payment, by their views of their systems' effectiveness

■ Average (N = 301)  
■ Very or extremely effective systems (N = 117)  
■ Slightly or not at all effective systems (N = 64)



5D: Share of merchants that use select methods to mitigate the impact of first-party misuse, by how merchant manages dispute-management systems

■ Manage with internal teams (N = 153)  
■ Outsource the management (N = 77)  
■ Both internal teams and outsource services (N = 70)



Source: PYMNTS.com | Verifi  
Dispute-Prevention Solutions Report



## Conclusion

Disputed card payments have long been one of the most challenging problems merchants have to address after a purchase has been made, primarily because of lost revenue. If the dispute means a customer remains dissatisfied, the merchant may lose that customer forever. While many merchants count on the effectiveness of their in-house tools to shield them from cardholders who attempt to abuse the dispute-resolution process, PYMNTS' research has shown that third-party systems are more effective than what many merchants can implement by relying solely on their own resources. To have effective dispute-resolution and fraud-prevention processes, merchants must recognize when a third party has a better answer that will limit their losses from fraud and lower their overall costs.

## Methodology

Dispute-Prevention Solutions: Third-Party Tools Limit Disputed-Related Losses, a PYMNTS and Verifi collaboration, examines how businesses manage disputed card transactions and their systems' effectiveness at limiting losses from disputes and fraud. To gather information about how merchants' procedures for resolving disputed transactions limit misuse of card payments, we surveyed 301 merchants in four business categories — retail, entertainment and gaming, travel and leisure and digital subscription services — from Dec. 7, 2021, to Jan. 7, 2022.



# About

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[PYMNTS.com](#) is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.

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Since 2005, Verifi has been a leader in the payments industry, providing innovative, end-to-end payment solutions that protect against fraud, prevent and resolve disputes, and recover revenue lost to chargebacks. In 2019, Verifi was acquired by Visa, combining technologies to provide enhanced fraud and dispute management solutions on a global scale. Verifi creates strategic, adaptive technologies for sellers, payment facilitators, acquirers, and issuers, building sustaining partnerships to deliver value, increase profits, and promote brand growth. Visit: [verifi.com](#).

# Dispute- Prevention Solutions:

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LOSSES

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