

Win the Dispute Game

A starter guide to managing
consumer disputes



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The playing field

The Fair Credit Billing Act of 1974 legislated the chargeback process to help protect consumers. Fifty years later, consumer spending has evolved, with online transactions rising exponentially. Dispute volumes have kept pace with the increase in digital transactions, amounting to more than a **\$200B a year** chargeback problem for merchants¹.

With this paradigm shift, merchants are now the ones at risk – bearing the burden of increased operational expenses,

fees, chargeback monitoring programs, and worse – friendly fraud, which merchants report as increasing as much as 63% year over year².

This guide will teach you more about the dispute game and give you tips and tools to prevent friendly fraud, lower your dispute volumes, and retain your revenue using Verifi's Post-Purchase Dispute Management Solutions.

¹ [The Paypers](#)

² [Verifi 2024 Global Fraud & Payments Report](#)

When thinking about payment disputes, it helps to understand the chargeback flow.



How the dispute game works

Understand how gaps in communication between payment entities can result in chargebacks and lost revenue.



Cardholder inquires about a transaction

⚠ Cardholder skips over the merchant, going directly to the issuer, leaving no opportunity to resolve the dispute upfront.



Issuer processes consumer dispute

⚠ The issuer lacks sufficient information to solve the problem, so they initiate a chargeback and provisional credit to the cardholder.



Once the dispute is filed, the amount of the original transaction is taken from the merchant's account while the dispute is in review.



Card brand processes consumer dispute

⚠️ Downstream impacts include merchant fees, fines, and potential loss of processing privileges.



Acquirer receives dispute information from card brand

⚠️ By default, the acquiring bank removes funds from the merchant account until the merchant can prove the transaction is valid.



The merchant has the option to accept the chargeback or file a representment to defend the legitimacy of the transaction by presenting a rebuttal letter, reversal request, and other documentation.



Merchant receives and processes dispute response

⚠ The merchant learns of the chargeback too late, incurring a fee.



Issuer processes merchant dispute response

⚠ Not supplying the proper compelling evidence can lead to the merchant losing the dispute.





Merchant or Cardholder is credited for the dispute amount

⚠ Without adequate representation, merchants risk losing revenue from illegitimate disputes over legitimate charges.



***We run to win,
not just to be in the race.***

- Vince Lombardi



Penalty points

The cost of chargebacks

Every step of the dispute process comes with fees, fines, and added operational expense. If merchants receive too many disputes – they risk mandatory chargeback monitoring programs and potential loss of processing privileges.



By the numbers

PENALTY



Chargeback fee Up to \$100 per chargeback

Merchants pay an acquirer fee for every chargeback, even when the cardholder's claim is rejected.

Arbitration costs \$500

Cases that escalate to arbitration require the merchant to pay for the associated costs if the merchant loses the case.

Chargeback-to-sales ratio Loss of processing ability

Merchants who have excessive chargebacks could be put on a monitoring program or even face termination of their account.

Losses extend well beyond the hard numbers, impacting other aspects of the business and taking valuable resources and customers away from the merchant.

Incalculable losses

PENALTY



Backlogged disputes:

As disputes increase, so do the operational expenses needed to manually review cases, manage the data sourcing, rebuttal drafting, reconciliation, and reporting.

Lost goods / services:

Recurring and subscription merchants especially get hit with losses from actual goods and services rendered and shipped prior to the initiation of a chargeback.

Brand damage & customer Loss

Cases that escalate to arbitration require the merchant to pay for the associated costs if the merchant loses the case.

False positives:

High fraud dispute volumes lead to intensified fraud scoring, which can trigger false positive transactions, causing declines for legitimate purchases.

A matter of perspective



Merchants and issuers have very different perspectives when it comes to handling disputes. Issuers are under pressure from regulators to protect cardholders, meanwhile merchants bear the burden of chargeback fees, fines, operational expense, and lost goods and services.




When a cardholder contacts the issuer about a payment dispute, issuers initially receive more information about the transaction from the cardholder than the merchant - leading them to believe the cardholder is right. This puts merchants at a disadvantage when responding to a dispute, particularly when they become involved too late in the process.

To level the playing field, merchants face three key challenges:

- Determining which disputes are worth the cost to fight.
- Communicating purchase detail directly to issuers early in the dispute lifecycle.
- Tracking all necessary documentation and timelines from different sources.

Chargeback reason codes

Chargeback reason codes fall into four primary categories:

Fraud	Authorization	Processing errors	Consumer disputes
			

Understanding each reason code is imperative to knowing the best way to create a rebuttal or stop future disputes from happening. The most commonly issued chargebacks are fraud card absent.



Merchant errors



Key consumer dispute and processing reason codes are often attributed to merchant error. A customer may not understand the functionality of the merchant's website, or inadvertently opt into a service. This is exacerbated with card-not-present and digital transactions.

Consumer dispute

Merchandise / services not received

- A failed authorization in the checkout process can lead to the cardholder not receiving the product or receiving a different item.

Cancelled Recurring Transaction

- An oversight in a subscription cancellation policy causes confusion or enables fraudulent behavior.

Not as described or defective merchandise / services

- Poor customer service can often lead to consumers filing dispute where customer service fell short to address quality concerns of service or merchandise.

Counterfeit merchandise

- Merchants who resale merchandise or act as a marketplace may have issues with quality assurance of sourced merchandise.

Processing

Duplicate processing

- The transaction wasn't processed correctly, or it was duplicated.

Understand the friendly fraud plays

How does friendly fraud occur?

When most people think of fraud, they think of stolen account numbers or identity theft; but friendly fraud can account for up to 75% of all chargebacks³.

Also known as first-party-misuse, friendly fraud occurs when a cardholder disputes a legitimate transaction with their issuer. This includes customers refuting valid purchases such as long forgotten recurring subscriptions, or children given access to use their parent's card to make purchases with parental approval. As none of these purchases are considered unauthorized by the cardholder, the chargebacks negatively impact merchants in both cost and time spent responding to false claims.

Although friendly fraud is often unintentional, recent studies show intentional first-party-misuse is on the rise.

First-party-misuse, aka friendly fraud, can be intentional or unintentional

Unintentional

Confusion over billing descriptors

Customers fail to recognize the merchant's billing descriptor, making it difficult for the customer to identify the purchase on their billing statement.

Family fraud

Authorized users on shared accounts make purchases without notifying the primary account holder.

"One-click" buy buttons

Enabling faster checkout and conversions also increases the chance of buyer's remorse, which can lead to a customer to filing a dispute claiming.

Vs.

Intentional

Sophisticated shoplifting

A customer attempts to obtain free goods or services by initiating a chargeback on purchases already received.

Subscription cancellation

High fraud dispute volumes lead to intensified fraud scoring, which can trigger false positive transactions, causing declines for legitimate purchases.

Buyer's remorse

When the quality of goods is not as expected or the cardholder regrets the purchase, they may file a chargeback to reverse the financial impact of a purchase they have come to regret.
When a purchase is not eligible for return, a cardholder often tries to obtain a refund by other means – filing a chargeback.

³ pymnts.com

Tactics to prevent friendly fraud

Pre-purchase

Considerations before the purchase:

Maintain a simple and transparent return policy.

Provide easy to find terms and conditions, return policy, and subscription of recurring information, if applicable
verify cardholder billing address and delivery address match

Require card verification (CVV) codes

Analyze transaction trends

- Determine blacklist or exclusion list for customers who frequently file disputes
- Review dispute and purchasing trends to identify high risk product lines, business entities, countries, etc.

Post-purchase

Considerations after the purchase:

Unclear billing descriptors can lead to customer confusion when reviewing their billing statements

- Include "doing business as" (DBA), if applicable
- Use Customer support number in descriptor
- Use abbreviation if your business name is longer than 20-25 characters

Clear, consistent communication can help remind cardholders what the purchase is for

- Send detailed order confirmation to customers
- Be transparent about delivery detail
 - Send notifications when items have shipped and upon delivery
 - Be proactive with customer outreach and solicit survey responses

Increased customer service with first-call resolution can help keep customers satisfied so they don't file a dispute with the issuer.

Storing transaction data for 365 days can help merchants qualify for dispute deflection with submission of qualified transaction data.

Utilizing service providers to supply transaction transparency to the cardholder, and automated dispute deflection data to the issuer, can help prevent disputes before they are filed.



An ounce of prevention is worth a pound of cure.

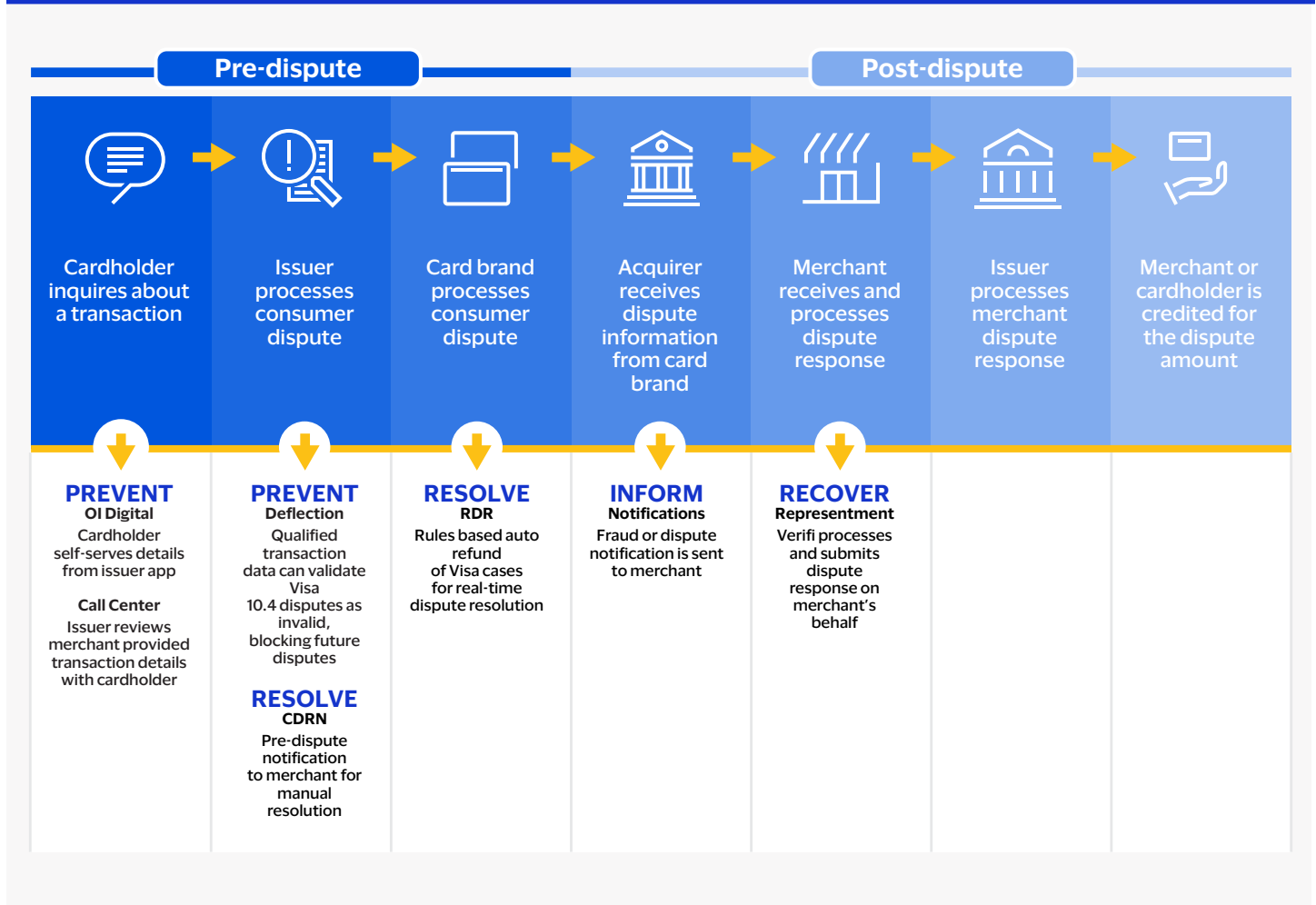
- Benjamin Franklin



If payment best practices fail to prevent a cardholder from contacting their bank to inquire about a transaction – Verifi’s post purchase solutions can prevent inquiries from escalating into disputes before chargebacks are initiated.

Verifi’s post-purchase solutions help merchants interface seamlessly with cardholders and issuers to provide transaction transparency and quick resolution to streamline the dispute process, improve the customer experience, reduce financial loss, create operational efficiencies, and remove unnecessary fraud and first-party misuse disputes from the payment ecosystem.

Improving customer experience



PREVENT

Order Insight®

Order Insight provides issuers and customers with detailed purchase information in real time to validate sales, enrich the customer experience, reduce customer billing confusion, and prevent first party misuse (a.k.a. friendly fraud)

- Access to global network
- One integration connects you to a global network of over 99% of all Visa issuers and expanding coverage of non-Visa issuer portfolios
- Prevent unnecessary disputes
- Make it easy for customers and issuers to review purchase details at transaction inquiry, to combat friendly fraud, preventing unnecessary disputes and fraud claims
- Improve customer experience
- Empower your customer with simple, on-demand access to order details to self-resolve purchase inquiries with participating issuers
- Enhanced deflection
- For Visa 10.4 fraud disputes, Order Insight provides structured merchant data to Issuers confirming the purchase as legitimate, blocking any future dispute

Prevent solution - Order Insight



Cardholder digital experience

Customers access digital receipts in their online portal or mobile banking app



Call center experience

Issuer call center agents access enhanced transaction detail through back-end banking platform



Fraud dispute deflection

Qualified transaction data can validate Visa 10.4 disputes as invalid, blocking future dispute

RESOLVE

Cardholder Dispute Resolution Network (CDRN®)

Verifi's **RESOLVE** solutions empowers merchants to resolve both fraud and non-fraud disputes at the pre-dispute stage before a chargeback is processed and factored into dispute ratio calculations.

With pre-dispute resolution, merchants accept liability of the dispute to issue a credit back to the cardholder, effectively intercepting a dispute before a chargeback occurs.

- Resolved pre-disputes do not factor into Visa dispute ratio calculations, helping merchants healthy dispute-to-sales ratios and avoid high-risk dispute monitoring programs
- Eliminate the blind spots in dispute submission with robust reporting and analytics
- Exceed customer expectations by resolving pre-disputes quickly
- Utilize a global network of issuers across multiple card brands
- Reduce labor incurred from dispute representment

Resolve solution - CDRN

CDRN

A card brand agnostic manual solution that allows merchants to resolve both Visa and non-Visa pre-dispute cases within 72 hours by means of a merchant-initiated credit for the transaction in question

CDRN notifies participating issuers of the credit, stopping the initiation of a chargeback

Benefits



Control dispute ratio

Enhanced control of dispute resolution through merchant-initiated case review



Reduce costs

Enhanced control of dispute resolution through merchant-initiated case review



Card agnostic

Coverage on major non-Visa card brands (Mastercard, Discover, and American Express)



Increase dispute visibility

Detailed reports easily adapt to suit merchant reconciliation needs

RESOLVE (Cont)

Rapid Dispute Resolution (RDR)

Resolve solution - RDR

RDR

An automated solution for Visa pre-dispute cases uses a robust decision engine to automatically intercept pre-disputes using customized rules set by the merchant

RDR offers real-time resolution for cases with participating RDR issuers, stopping the initiation of a chargeback.

Benefits



Improve Dispute Ratios

Pre-disputes resolved with a cardholder credit do not count against Visa's dispute ratio – merchants with high dispute ratios see immediate results



Reduce Operational Needs

Optimize the dispute process to automatically reduce disputes with low recovery rates



Eliminate Over Refunding

Resolved pre-disputes are not eligible for future disputes



Greater Control

Enhanced control of dispute resolution through merchant-initiated case review

RECOVER

Dispute Representment

Verifi's **RECOVER** solution provides end-to-end Dispute Representment to win back disputed sales revenue with a human touch.

Simple global integrations give merchants the option to easily share compelling evidence with a dedicated team of specialists to build compelling evidence packages and represent disputes on behalf of the merchant.

Results of recovered revenue are available directly through a flexible reporting interface.

Recover solution - Dispute Representment

**Flexible integration**

Verifi supports multiple integrations to collect compelling evidence with simple and onboarding

**Outsourced managed services**

Specialists use their expertise to include the best evidence and deliver an accurate formatted response package

**Enhanced reporting**

Access on-demand reporting to improve financial forecasting and key performance indicators for maximum revenue protection

**Scalable solution**

On-demand scalability when additional resources are needed

INFORM

Dispute & Fraud Notifications

Verifi's **INFORM** solution helps merchants leverage fraud and dispute data to reduce payment risk and stop potential future losses. Merchants have access to all Visa fraud and dispute notifications to enhance business operations with link analysis, fraud modeling, and fraud trending analysis.

Inform solution - Dispute & Fraud Notification

Dispute notice

Receive all Visa fraud and non-fraud disputes from a single source to easily identify operational and service changes to improve customer service

Fraud notice

Receive all Visa confirmed fraud notifications (TC40) from a single source to easily track fraud rates, improve link analysis, modeling, and fraud analytics

Benefits



Flexible formats

CSV format allows merchants to easily work with the data. Notices can be received by API, batch, or portal



Modeling

Enhance fraud detection, modeling, and manual review



Perspective

Improve link analysis and fraud analytics



Daily reports

Use fraud data to track trending fraud rate

The key to winning the dispute game is to develop an effective strategy.



Let the Verifi team help you get there.

For more information please visit verifi.com