Merchant Fraud Journal

MFJ's 2021 Customer Experience Report

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Introduction

In a socially distanced world, customers are more reliant than ever for online purchases without ever entering a brick-and-mortar establishment. This increased anonymity can lead to increased fraud—and it has: the COVID-19 pandemic has exacerbated credit card fraud by 35% in 2020 alone. "Card-not-present" fraud may yield a whopping $8 billion in losses by the end of 2021.

Ecommerce merchants across all industries do their part to protect themselves and customers from fraud at many points along the buyer's journey. Striking the careful balance between approving more orders with increased efficiency while reducing or eliminating chargebacks and their associated costs is nearly impossible—especially for small businesses—when handled entirely in-house and solely via manual review processes.

Merchant Fraud Journal surveyed our readership to gain insight into the concerns and priorities of fraud prevention and resolution as we head into 2022. This report presents the major trends in the poll data along with our observations and tips. The most common theme? **Providing a frictionless customer experience (CX) should spearhead any business's fraud prevention strategy.** Satisfied customers are not only more likely to remain loyal but are also less likely to engage in the "friendly fraud" that represents a bulk of chargebacks and that can mean significant losses to your company. Along with creating the best possible CX, **the most forward-thinking businesses will pair with the right fraud detection partner to remove bottlenecks and to direct manual resources most efficiently.**

"Friendly Fraud" Chargebacks are a Top Issue

Nearly three of four respondents cited chargeback prevention as a high priority for their 2022 roadmap, but an overwhelming 60.87% of respondents said they are "not confident" in their ability to prevent friendly fraud.

A <u>**chargeback**</u> **is a charge returned to a payment card when a customer disputes the charge with their bank/issuing agency.** Chargebacks cost businesses: When a chargeback is initiated, the customer's bank or card-issuing institution extracts and holds the funds in question from the business's account while the potential fraud is investigated by the bank. If the chargeback is found to be valid, the money goes back to the customer. If found to be invalid, the money goes back into the business's account. The representment process can take even longer if the business disputes the validity of the chargeback. And each chargeback a business suffers incurs a non-refundable fee and raises the "chargeback ratio" (which is essentially like your auto insurance rates going up after a car accident). Legitimate chargebacks often result from unauthorized charges, processing errors like accidentally running an order through twice, and fulfillment errors.

Many businesses are improving their ability to fight obvious or traditional fraud—for example, using Turing tests like <u>reCAPTCHA</u> and not accepting gift card purchases by phone or email—and 68% of our respondents reported feeling somewhat confident in their ability to prevent account takeover fraud. But two of three survey respondents said friendly fraud remains a significant, hard-to-fight problem.

<u>**Friendly fraud**</u> **is a chargeback initiated when the charge is not technically fraudulent.**

Examples of friendly fraud include filing a chargeback in situations like:
- Avoiding a complicated return process;
- Trying to "undo" a recurring payment that the customer forgot to skip or cancel;
- A shipping or delivery issue;
- Displeasure with the product or service;
- Your business's name appearing in an unrecognizable form on the customer's credit card statement.

Each of these cases represents an opportunity for businesses to improve their overall customer experience and reduce these instances of friendly fraud.

Unanimous Agreement: An Excellent CX is Critical to Fraud Prevention Strategies

One hundred percent of our respondents said that providing an excellent customer experience is critical to their fraud prevention strategy, and greater than four in five indicated an excellent customer experience is "very critical."

The centrality of the customer experience isn't surprising. A resilient infrastructure behind-the-scenes of your ecommerce site and a customer-friendly front-of-house experience combine to thwart fraudsters and encourage legitimate customers. The unanimity is more telling and reflects a changing power balance between customers and businesses. Online reviews are king, and now more than ever before, retailers recognize the immediate, material impact unsatisfied customers can have on bottom lines. An unhappy customer can sink a business much faster than ever before.

Reducing Customer Friction Can Reduce "Friendly Fraud" Chargebacks

An excellent customer experience (CX) can reduce customer friction, which can significantly reduce instances of friendly fraud. Let's consider that list of friendly fraud cases and how a smoother customer experience could reduce them. These vignettes may seem familiar to you; we based them on our own experiences.

Avoiding a Complicated Return Process

To avoid in-person shopping, you purchase cat food in bulk from Chewy.com, a popular pet supplies ecommerce business. Your cat passes away suddenly, leaving behind two unopened cases of food. Grieving still, you call Chewy to discuss the return process, and the representative immediately refunds the cost of the food and instructs you to donate the food to a local animal shelter in your late cat's memory. The representative focuses so much on comforting your grief that you nearly forget that you called about a return, which has already been processed with your bank. You are now not only more likely to trust Chewy for any future pet purchases, but you are also more likely to recommend Chewy highly to others. Imagine if a competing store had a rigid, time-consuming, or extremely complex return policy; a grieving pet owner might initiate a fraudulent chargeback to eliminate a controllable source of pain in their life.

While nearly half of our respondents said they feel only somewhat confident in their ability to prevent return fraud, be smart and optimistic. By investing in one of the top online fraud prevention solutions like NoFraud, businesses can focus on providing an excellent CX. Chewy has seen unbelievable growth in its mere decade of existence, and not just because of the "pandemic puppy trend." Chewy's customer service ratings are through the roof because the company empowers its customer service staff to make the best decision for the customer—which nearly always is the best decision for the business too.

Our advice: Completely demystify your return process. Make it easy for a customer to find return information and to contact customer service with questions. Even better, give customer service staff the decision-making power to find creative solutions for customers. Treating each customer and their individual situation as unique and important can create untold levels of goodwill and customer loyalty.

"Undoing" a Recurring Charge

Imagine you subscribe to a meal-kit delivery service, and you forgot to skip this week's delivery. Unnecessary food arrives, along with your anger at an unnecessary expense. You go online to look for Company A's customer service phone number and locate one after 25 minutes of searching. Frustrated, you finally reach a human, only to find an unempathetic employee reading off a script and unwilling to help. Now angry, you hang up and call your bank and report the charge as fraudulent.
Now imagine you subscribed with Company B. Not only did they send you an email reminding you that your skip window was closing, but their website also had the customer service number in an easily accessible place. When you call to explain your situation, Company B's representative shows empathy and credits your account so that the next box you get is free. Not only did Company B avoid a fraudulent chargeback, it also has created a frictionless and pleasant customer experience that can often predict increased loyalty and brand advocacy.

Our advice: Be flexible and empower your customer service representatives to make the best decision for the customer AND the business. The more rigid your dispute process, the more likely your business is to accumulate friendly fraud chargebacks and a poor reputation, costing you customers and revenue.

Shipping and Delivery Issues

Living in a busy city, "porch pirates" abound—those opportunistic thieves who drive around neighborhoods and steal delivered packages off people's front stoops. This extremely common product can be a major headache for consumers. Even with creative solutions like code-controlled lockboxes, sometimes items are still stolen. Or perhaps they're simply lost—as many as one in ten packages are lost in transit each year. Either way, you haven't received something you paid for (or you receive it very, very late). Realizing that the package hasn't arrived on time or at all, you contact the seller to explain the situation. Company A is hard to reach and has inflexible customer service representatives who delay or outright refuse a refund or re-shipment of the item. Refusing to pay for something you never received, you initiate a chargeback with your bank.

By contrast, companies like Amazon make a return or replacement a three-click process that includes options like "I never received my item" or "item arrived damaged." Furthermore, ecommerce retailers like Amazon send regular, detailed updates to customers to avoid precipitous chargebacks. For example, the Amazon buyer receives a sale confirmation with transaction number, a shipping notification with tracking information, and delivery notifications like "your item will be delayed" or "the item was unable to be delivered," sometimes even including information like "package was left with apartment receptionist."

Our advice: Send as much tracking and confirmation information as you can. Keeping customers "in the know" reduces uncertainty and increases trust. Because the customer is more likely to contact your company, they are less likely to initiate a fraudulent chargeback if an item is delayed or not delivered.

Dissatisfaction

Business Insider reported on a funny underline product mix-up that may have resulted from a bot-generated product: ordering a dinosaur-shaped pillow for a child's room, the customer supposedly received a regular pillowcase with a picture of a boy laying on a dinosaur pillow on it. The story is common: Almost everyone has purchased a product online and received something that didn't meet the promised description or performance. How a company chooses to handle customer dissatisfaction can predict chargeback numbers. If the company makes the complaint and refund process complicated or impossible, a customer may feel initiating a chargeback is their only option.

Our advice: Stand behind your product or service 100%. As with friendly fraud from recurring charges, the business you'll lose from accumulating chargebacks and a poor reputation will have a greater financial impact than making good with a few customers.

Billing Descriptor Confusion

Imagine opening your bank statement and seeing the following two entries:

-$45.35 PAYPAL *OLD NAVY 449535	Nov 8 2022
-$68.06 KUBCPP7688	Nov 8 2022

The second billing descriptor—in this case from a public utility online payment—is much more likely to result in a chargeback (or at least a concerned phone call to the bank) because it is unclear who the payee is from the descriptor. The first billing descriptor, by contrast, gives clear information about the purchase origin, store, and order number. Stores like PayPal and Old Navy are preventing unnecessary chargebacks by wisely selecting a billing descriptor. This is especially important for businesses that lack name recog-nition.

Our advice: Talk with your business's bank to select a clear static billing descriptor (or a dynamic descriptor if offered).

Necessary Manual Fraud Review Doesn't Have to Be Time-consuming or Cause Customer Friction

The data show that there is tension between speed and customer satisfaction when it comes to fraud. While fewer than five percent of orders are escalated for manual review and over 60% of respondents consider their manual review queue to be "not severe," the amount of time to resolution varies widely.

For example, the average time-to-resolution on an order escalated for manual review:

under 2 min 21.74%	~2 min 21.74%	~3 min 17.39%	~4 min 13.04%	5+ min 21.74%

The variety of manual fraud review times mean businesses can't estimate or plan for fraud review times, which present a significant problem during busy shopping seasons and could lead to increased false positives. Over two-thirds of businesses consider decreasing manual fraud review times a high or medium priority for 2022, but the essential human element of fraud prevention can create problems.

Nearly three in four respondents listed "reducing customer friction" as a high priority for their 2022 roadmap. This same ratio of respondents reported chargeback prevention as an equally high priority. **But fraud prevention strategies that add friction to the CX and yield false positives will hurt your business.** As many as two of three online orders are flagged as fraudulent but are false positives upon further investigation. Merchant concerns about fraud are intense and often lead to an overcorrection that flag legitimate orders as fraud. There are many myths about fraud prevention, like rejecting all "risky" orders or certain order categories (like first-time buyers) or forcing customers to provide detailed information to prove a legitimate transaction often leads to the dreaded cart abandonment. While you may have prevented a chargeback, you still have an angry customer and lost revenue.

Partnering with an online fraud prevention solution can enable businesses to meet the somewhat competing high-priority goals of reducing customer friction and increasing order approval rates. This allows businesses to avoid long queues that delay shipping while balancing the need to prevent fraud with the need to create frictionless experiences.

Conslusion

Chargeback prevention is of the highest priority for three-quarters of businesses heading into 2022. But with the heavy cost of chargebacks and the widely varying times to fully resolving them—34.78% in under two weeks, 30.43% in two to four weeks, and 17.39% three or more months—businesses need a full-service solution. The right partner will offer both superior technology and hands-on human fraud analysts that free your business to create the excellent CX needed to avoid chargebacks in the first place. Fraud prevention and detection services like NoFraud help businesses approve more transactions, reduce false positives, and increase efficiency, all which save businesses money and time. The NoFraud "True Cost of Fraud" calculator can show you just how much you can save in the coming year by optimizing your fraud detection processes.

About MFJ

Merchant Fraud Journal is an independent and unbiased publication dedicated to empowering online sellers to greatly reduce the impact of eCommerce fraud on their businesses. Its core mission is to break the silos surrounding merchants' internal fraud prevention processes by bringing together industry professionals to share their knowledge with one another.

Unfortunately, the business process knowledge needed for online sellers to greatly reduce the impact of eCommerce fraud is scarcely available right now. There is no single forum and resource where merchants, payment professionals, and other industry professionals could go to get educated on the myriad of challenges they face.

We seek to fill that gap by being a resource that collects insight from industry thought leaders and fraud prevention tool experts on topics such as chargebacks, false positive declines, account takeover fraud, friendly fraud, data breaches and more. Our goal is to help honest businesses quickly understand their security options and take action, so they can get back to focusing on their core business activities.

About NoFraud

About text

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