FACT OR FRICTION – INDUSTRY COLLABORATION NOW TACKLING THE NEW #1 PROBLEM: FALSE DECLINES

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WHAT ARE TODAY’S BIGGEST ECOMMERCE PROBLEMS?
FRIENDLY FRAUD
FRIENDLY FRAUD refers to fraud that is committed when an individual had knowledge of and/or was complicit with – and/or somehow benefited from – the transaction on their own account although the individual reported the transaction as unauthorized.
Friendly fraud covers a spectrum of activities from benign to hostile

1. Descriptor Confusion
2. Household
3. Buyer’s Remorse
4. Gaming the System
THE NEGATIVE EFFECTS OF FRIENDLY FRAUD

**CARDHOLDER**
- Bad experience
- Purchase friction
- Card on file breakage
- Card reissue

**MERCHAND**
- Bad customer experience
- Lost revenue
- Chargeback / representment cost
- Decreased acceptance

**ISSUER**
- Bad cardholder experience
- Increased OPEX
- Spend on card decreases
- Rules engine noise
- Card reissue
28% Percent of total ecommerce revenue lost to ‘friendly fraud’.

Source: MRC
Ethoca Survey – Friendly Fraud Rates by Industry: 2016

- Airline/Ticketing: 6%
- Mass Merchant: 0%
- Apparel: 8%
- Electronics: 19%
- Digital Goods: 48%
- Hardware: 16%
- Books: 1%
- Auction: 26%
- Office Supplies: 33%
Ethoca Survey – Friendly Fraud Rates by Industry: 2018

- Travel: 39%
- Digital Goods: 60%
- Online Gaming: 52%
- Physical Goods: 49%
- Tech Support: 49%
HOW DOES FRIENDLY FRAUD CONTRIBUTE TO FALSE DECLINES?

- Good transactions are coded as fraud.
- Dynamic, self-learning fraud models get tuned incorrectly.
- Merchants, issuers and acquirers decline more.
- Good customers are turned away.
FALSE DECLINES
**False Declines** occur when good transactions are wrongly rejected due to the suspicion of fraud. As a result, cardholders often elect to abandon a purchase, seek a different online store, or use an alternative payment card.
$118B

The value of transactions falsely rejected by U.S. card issuers in 2014.

versus

$9B

The value of actual fraud measured by U.S. card issuers in 2014.

13-1 Ratio

Where should your focus lie?

Source: Javelin 2014
The difference between digital and physical goods…

3 - 4% Decline rates for physical goods

15%+ Decline rates for digital goods

Source: Ethoca
32.5% of cardholders don’t retry a purchase after a false decline.

Source: Ethoca
AVERAGE MERCHANT DECLINE RESULTS

- FRAUD: 9.4%
- INSUFFICIENT FUNDS: 44.4%
- LOST / STOLEN: 10.4%
- ERRORS: 20.6%
- OTHER: 15.2%

Source: Ethoca
HOW DO FALSE DECLINES IMPACT MERCHANTS?

Lost sales/revenue

Poor customer experience

Encourages customers to use competitors

Brand damage
HOW CAN MERCHANT-ISSUER COLLABORATION HELP?
What is a Collaboration Network?
Now customers and issuers have the info they need
Real-time collaboration can resolve multiple forms of friendly fraud

CARDHOLDER CONSEQUENCES
- Bad experience
- Purchase friction
- Card on file breakage
- Card reissue

MERCHANT CONSEQUENCES
- Bad customer experience
- Lost revenue
- Chargeback/representment cost
- Decreased acceptance (false declines)

ISSUER CONSEQUENCES
- OPEX (Inbound call volume, claims cost, etc.)
- Spend on card decreases (back of wallet)
- Rules engine noise
- Card reissue
The cardholder clicks on a transaction in internet or mobile banking app, or contacts the issuer to inquire about a transaction.

Cardholder recognizes their purchase after presentation of digital receipt, or after conversation with the agent. As a result of this quick and easy process, the cardholder experience is improved.

The solution retrieves in-depth transaction details from the merchant and immediately presents it to the cardholder or the appropriate issuer channel.
REALTIME DASHBOARD FOR ISSUER CALL CENTER AGENTS

Itemized Receipt and In-Flight Refund

Merchant Details

Full Purchase & Account Details

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Collaboration provides merchant receipts through online banking…

DIGITAL RECEIPTS AVAILABLE TO CARDHOLDERS

...and mobile apps
HOW MUCH FRIENDLY FRAUD CAN COLLABORATION STOP?

~35-50% Deflection Rate via Call Center

~20-25% Deflection Rate via Digital Channel
50%

Number of ‘deflections’ a leading North American issuer is currently enjoying thanks to collaboration
BENEFITS OF COLLABORATION

- **IMPROVE CUSTOMER EXPERIENCE**: Customers no longer need to go through the frustrating chargeback process or have their payment cards reissued.

- **ELIMINATE CHARGEBACKS**: Stop chargebacks from disputes and friendly fraud.

- **RECOVER LOST REVENUE**: Revenue is recovered when the cardholder assumes rightful liability for their purchase.

- **REDUCE FALSE DECLINES**: Acceptance is increased as issuer fraud models are improved.
QUESTIONS?
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